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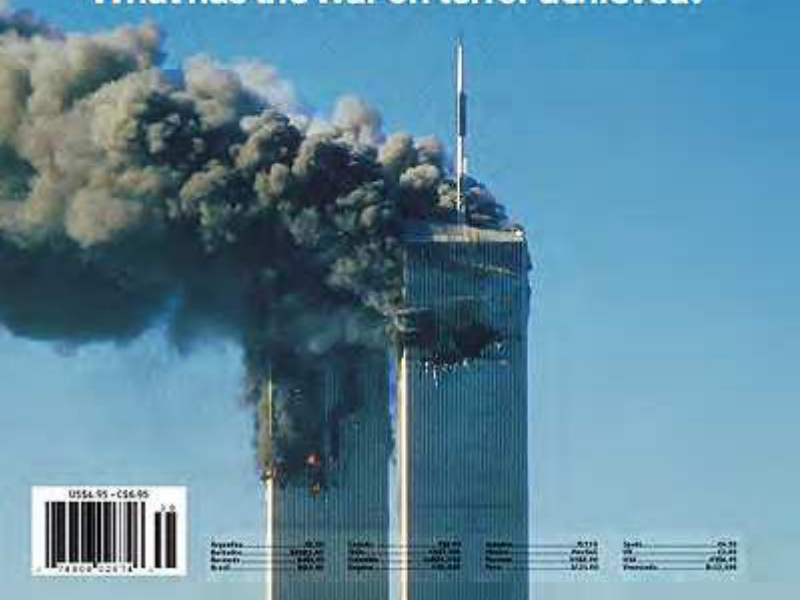
Two years on

What has the war on terror achieved?



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Politics this week

Sep 11th 2003
From The Economist print edition

Apocalypse, soon

AFP

In tit-for-tat revenge in the **Middle East**, the Israelis tried to kill Sheikh Yassin, the founder of Hamas, a militant Islamist faction, and Hamas suicide bombers killed 15 Israelis, some of them soldiers, in terrorist outrages in Jerusalem and Tel Aviv. Ariel Sharon, Israel's prime minister, cut short a visit to India to decide on his next steps. Meanwhile, the Palestinians' prime minister, Mahmoud Abbas, resigned after losing his party's confidence and was replaced by Ahmed Qurei, the speaker of parliament.

See article: Israel and the Palestinians

Iraq's American-appointed Governing Council joined the Arab League, filling the vacancy left by Saddam Hussein's fall. America continued to push for United Nations backing for its policies in Iraq. A meeting of the foreign ministers from the five permanent members of the Security Council was scheduled for September 13th in Geneva. A suicide bomber struck in Irbil, killing at least one person, in the first such attack in Iraq's relatively stable north.

See article: Iraq, America and the United Nations

Al-Jazeera, an Arab television station, broadcast a videotape which it says shows **Osama bin Laden** and his top aide, Ayman Zawahri, possibly made last April.

Syria's president, Bashar Assad, appointed a new reformist prime minister, the first such change since he took over after his father's death three years ago.

West African peacekeepers in **Liberia** deployed outside the capital, Monrovia, for the first time, to quell fighting between government and rebels in the town of Kakata.

Kwara state in Nigeria offered unlimited free land to **Zimbabwean farmers** prepared to invest there. Most of Zimbabwe's farmers have been forced off their land by their own government.

Paying for terror

A 33-year-old **Indonesian** man known as Imam Samudra was sentenced to death for masterminding a bomb attack in Bali last October which killed over 200 people.

A new case of SARS, a respiratory virus which killed over 900 people earlier this year, was reported in **Singapore**. The World Health Organisation said that it was unlikely to signal another mass outbreak of the disease.

Hong Kong's chief executive, Tung Chee-hwa, withdrew his government's controversial “Article 23” internal-security bill. The bill would have made it easier for the government to stifle opposition.

See article: Hong Kong's anti-subversion bill

In the largest demonstration in Taipei's recent history, up to 150,000 Taiwanese took to the streets to demand a formal change of the island's name from the Republic of China to **Taiwan**. A few thousand pro-China supporters staged their own gathering the next day.

See article: Taiwanese nationalism

Sweden's tragedy

AFP

Anna Lindh, **Sweden's** foreign minister, died after an assailant stabbed her in the stomach in a Stockholm department store. The attacker escaped. Campaigning in a referendum still due on September 14th on joining the euro was suspended. Opinion polls had shown those against joining the euro in the lead by at least nine percentage points. Ms Lindh was a leading supporter of the yes vote.

See article: The murder of Sweden's foreign minister, Anna Lindh

Tension rose in **Macedonia**, where a fragile coalition government embraces representatives of the country's Slav Macedonian majority and ethnic-Albanian minority, after fights between ethnic-Albanian nationalist guerrillas and security forces left several dead and sparked an exodus from some villages near the border with Kosovo.

See article: Worries on both sides of the border between Kosovo and Macedonia

The **French** government admitted that 11,435 more people than usual died during a heatwave in the first two weeks of August; others put the figure at over 15,000. An official report puts the blame on hospitals for having too few beds available in August, family doctors for going on holiday and poor co-ordination between government departments—but spares the government itself.

See article: Responsibility for France's heatwave deaths

According to a report by a parliamentary committee, **Britain's** Ministry of Defence was “unhelpful and potentially misleading” in failing to reveal concerns in the ministry about the dossier published last September on Iraq's weapons of mass destruction. This means trouble for Geoff Hoon, the minister of defence.

See article: Geoff Hoon in the firing line

Leading to the front

President George Bush called **Iraq** the “central front” in the war on terror in a televised address to the nation. He also asked Congress for $87 billion for further military and reconstruction costs. Some 20,000 reservists were told that they would have to complete a 12-month tour of duty in the region.

See article: The war on terror

Mr Bush withdrew his nomination of **Miguel Estrada** to the US Court of Appeals complaining about the “disgraceful” Democrats in the Senate who had blocked for two years a vote confirming the appointment of the conservative Latino lawyer.

Boston's **Catholic church** agreed to pay $85m to 552 people in a settlement of sex-abuse charges levied against local clergy.

Alabama's voters rejected a $1.2 billion tax-raising plan. Governor Bob Riley, a Republican, had riled conservatives by pushing the plan as a way to raise living standards for low-income families in Alabama, one of America's poorest states.

AP

Peter Ueberroth, a moderate Republican, quit the race to become **California's** governor after opinion polls showed his support stuck at around 5%. That should help Arnold Schwarzenegger in his campaign for the governorship.

See article: The California governor's race

An annual survey from the Kaiser Family Foundation showed that **private-health insurance** costs for American employees had increased by 13.9% in 2002, the largest increase since 1990.

Juggling debt

Argentina defaulted on a payment of $2.9 billion to the IMF, the largest sovereign debt default in history. The next day, however, it reached a deal with the Fund to refinance $21 billion-worth of debt with multilateral lenders, including $12.3 billion with the IMF. The deal also included a 3% budget-surplus target for 2004, lower and kinder than expected.

See article: Argentina and the IMF

President Luiz Inacio Lula da Silva's tax-reform plan was passed by the lower house of **Brazil's** Congress without opposition votes, but ran into trouble with a flurry of amendments before the second round of voting, which had to be suspended.

See article: Brazil's tax reform

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Business this week

Sep 11th 2003
From The Economist print edition

Cancún begins

A meeting of the **World Trade Organisation** began in Cancún, Mexico. As usual, a rag-bag of anti-globalisation protesters attempted to disrupt proceedings and one Korean protester even committed suicide. High on the agenda: repairing the rift between rich and poor countries over farm subsidies.

See article: The Mexican marathon begins

Meanwhile, confusion reigned in Europe over **genetically modified crops**. The European Court said that Italy could continue its ban on GM foodstuffs provided it showed that they represented a health risk. However, last week, the European Commission said that Austria was not entitled to introduce a blanket ban on GM crops.

Apotex, a Canadian drug company, hurriedly launched a generic version of **GlaxoSmithKline's** blockbuster anti-depressant, Paxil. GSK is pursuing Apotex through the courts for patent infringement. Apotex has gambled that being first to market outweighs the risks of an adverse judgment in the future.

Facing the music

The world's leading **music companies** filed 261 lawsuits against individuals, including a 12-year-old girl, who swapped tunes under copyright over the internet. More lawsuits are expected but others who have illegally downloaded music files were offered an amnesty if they promise not to do it again. The music industry blames file sharing and piracy, rather than a decline in the quality of its products, for falling sales.

See article: Not-so-Jolly Rogers

An American judge ruled that desk-top advertisers can place **pop-up advertising** over rivals' websites without permission. He argued that computer users had implicitly consented by downloading software that allows the intrusion. He reluctantly conceded that pop-ups were part of the burden of using the internet. The ruling could allow even more aggressive web-based advertising.

MCI's plans to emerge from Chapter 11 bankruptcy protection in the autumn were helped along by a deal with two groups of creditors. They withdrew their opposition after the phone company, formerly known as WorldCom, improved its offer to repay part of its previous debts.

Grasso's pay cut

Richard Grasso, chairman of the New York Stock Exchange, tried to show restraint and silence critics enraged by his $140m pay package by announcing that he would forgo yet another $48m of other benefits. Many critics were, indeed, stunned into silence upon learning that still more cash was due to Mr Grasso.

See article: Grasso's brass neck

Larry Ellison, chairman of **Oracle**, will draw a salary for the first time in four years. The billionaire will take home a modest $900,000 from the beginning of September. He gave up taking a wage in 1999 in return for stock options that are now worth $264m.

Bank of America and **Janus Capital** both offered to compensate investors in mutual funds if independent audits showed that improper trading had left customers out of pocket. Both companies are under investigation by Eliot Spitzer, New York's crusading attorney-general, for illicit trading practices. Mr Spitzer demanded information from other firms under suspicion.

See article: Now he's after mutual funds

Ben Glisan, the former treasurer of **Enron**, pleaded guilty to criminal conspiracy relating to the accounting scandal that brought the energy trader down. He was sentenced to five years in prison, the first custodial sentence handed out to a former executive of Enron. Ten other top managers have pleaded not guilty to a range of charges and face trial.

Chelsea's big score

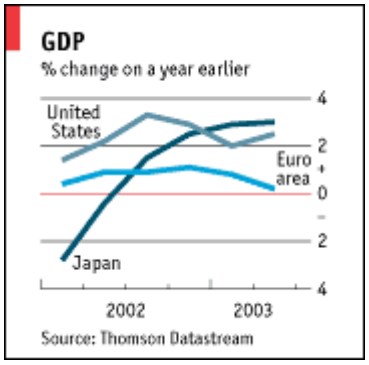
British football fans were surprised at the latest transfer to **Chelsea**, a London club that has spent over £100m ($159m) on new players since its takeover by Roman Abramovich, a Russian billionaire. Peter Kenyon, **Manchester United's** chief executive, who built that club into a global brand, joined Chelsea to fill the same position there.

Despite a scorching and thirsty summer in Europe, its brewers suffered. **Interbrew** announced that profits had risen by just 3.6% in the first half compared with a year before, to *euro*171m ($192m). The Belgian giant blamed the effects of a strong euro on exports. **Heineken**, a Dutch rival, said profits were up by a meagre 1% over the same period. Neither expected much better in the second half.

Japan bounces back

Japan's economy grew at its fastest rate for over two years according to revised figures. GDP expanded by 1% in the second quarter compared with the previous three months, and by 3% over the year. America's economy grew by only 2.5% in the same period. Meanwhile, the **euro area** languished. Its economy grew by a measly 0.2% over the year.

See article: What price a lasting rally?



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The war on terror

Two years on

Sep 11th 2003
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Much has been achieved, but things are now going badly

ONE of President George Bush's best phrases, deployed between the atrocities of September 11th and the American invasion of Afghanistan later that year, was that the effort to win the battle that al-Qaeda's suicide hijackers had launched would consist not of one big victory but rather of “the patient accumulation of successes”. Not everyone, either then or during the run-up to the invasion of Iraq last March, agreed that America's behaviour was truly patient. No matter: it was certainly resolute and pretty relentless, and only the churlish or blinkered could deny that successes were indeed being accumulated. Now, however, on the second anniversary of those terrible events in New York, Washington and Pennsylvania, things feel different. “The hapless accumulation of failures” is sounding a more appropriate line.

That version would be unfair but, alas, not entirely. September 11th prompted America to embark upon a hugely ambitious project, both to punish terrorism and to bring change to the Arab world and to Central Asia, the areas from which the Islamic terrorists originated, and from the miseries of which their grievances were presumed to arise. Given such ambitions, two years is much too short a period over which to make a firm assessment. But things are not going well.

The situation in Iraq, source of the greatest recent controversy, is not a failure, yet also can hardly be counted a success. Since the objective was regime change, not just regime toppling, no triumph can be declared until a durable new regime is in place. And progress towards that is proving decidedly difficult (see article), even if no one sensible expected it to be achieved within a mere four months, nor without opposition. The biggest failure, however, has taken place elsewhere in the Middle East. The resignation of the Palestinian prime minister, Mahmoud Abbas, and the resumption of intense violence between the Israeli army and Palestinian terrorist groups, confirm that Mr Bush's effort to push the two sides back into peace negotiations has failed (see article). Worse still, it has failed in large part because the effort was both weak and unbalanced.

Wishful thinking is not a policy

It is tempting to say that failure in solving the Arab-Israeli conflict is nothing new, and that some progress has been made. Both points would be correct, but neither is compelling. The toppling of Saddam, the demonstration of American power, the onset of war-weariness in both Palestine and Israel all offered a promising opportunity. Mr Bush appeared to be seizing it when he published his “road map” towards peace that had been agreed with the European Union, Russia and the United Nations, and was endorsed by Arab countries. The progress that it embodied was genuine: the formal acceptance, notably by the United States and the Arab neighbours, of both the need for a sovereign Palestinian state and of Israel's right to exist. Yet almost nothing has been done to move beyond that necessary, but very general, beginning.

Neither the Palestinians nor the Israelis have done what the road map demanded: despite a short-lived ceasefire, the Palestinian Authority has not clamped down on terrorist organisations; Israel has not even ceased to build settlements, let alone talk about dismantling them, and when it has removed isolated “illegal outposts” others have sprung up to take their place. Correctly, America has stressed that the Palestinian terror must end, and for that to occur the Palestinian authority must gain the strength and the will to force the terrorists to stop. Its hope was that Mr Abbas would bring about what his unreliable president, Yasser Arafat, would not. But Mr Abbas stood little chance of gaining the political support he needed to be able to challenge terrorist groups unless he could point to a credible prospect that Israel would fulfil its obligations too—and, eventually, that it would withdraw from the occupied territories.

Instead, Israel insisted that fulfilment must happen in sequence, not in parallel.

That desire is understandable, but self-defeating. If the plan was to work, Mr Bush needed to persuade Ariel Sharon, Israel's prime minister, to display clearly his intention to meet the road map's demands—such as by stopping settlement-building or re-routing the security fence being built around Palestinian territories so that it did not look like a land grab. Yet all Mr Bush did was to describe the fence as “a problem”. The White House seems to have had a blind faith that Mr Abbas would make enough progress to convince Mr Sharon to respond. Only last Wednesday a senior administration official told *The Economist* that Mr Arafat was a man of the past and Mr Abbas the man of the future. For three days, it was correct.

The wider battle

To a degree, the Arab-Israeli conflict can be considered as in a world of its own. But failure to make progress there also damages America's wider effort, in Iraq and beyond. For the manner in which it has happened has reinforced one of the most damaging accusations levelled by Muslim critics: that America has double standards. That, in turn, risks reinforcing one of America's biggest failures in the past two years: that it has become even more unpopular in Muslim countries than before.

Given that Osama bin Laden declared his holy war against “Jews and Crusaders” in the name of Islam, and seemed to renew it this week in a video, it should be no surprise that the deepest rift to have opened up since September 11th is that between America and the world's Muslims. It may be that this was Mr bin Laden's plan: to revive the idea that Islam and the West are doomed to collide and make the idea into a self-fulfilling prophecy. If so, a case can be made two years on that his plan has so far worked rather well. And yet it is not a plan that is pre-ordained to succeed. For it is based on a caricature. Islam and the West are both such fuzzy abstractions that the idea of a coming “civilisational” collision between them melts away when on closer inspection.

As we argue in our survey of Islam and the West in this issue, the Islamic world is no monolith: it is complex, diverse and argumentative. Muslim countries do not behave as a united power block. Millions of Muslims live in the West and many western ideas have penetrated deep into Islam, arousing a strong appetite among most Muslims for democracy, civil rights and “modernity” in general. This has indeed caused a collision of a sort: there are Muslims who say vehemently that such ideas are alien imports, leading Islam astray from its true path. But the faith is invoked on both sides of this quarrel, by Islam's democrats and modernisers as well as by its autocrats and traditionalists. This is at bottom a fight within Islam, not a fight between Islam and the West.

That point makes America's plan to build a democratic regime in Iraq crucially important, but also defines its limits. The change of course that Mr Bush signalled last week when he proposed a new resolution at the UN that would request the Iraqi Governing Council to set a timetable and procedure for taking over power and holding elections was a step in the right direction; so was his request for a lot more money from Congress. Other countries may demand that the UN should be given an even bigger role in directly supervising that process. Even more than that, though, the Governing Council needs to be given the power to do what is required of it as well as the consequent ability to gain domestic legitimacy in addition to international recognition.

Success can still be had, for Iraqis want self-government, and democracy is their best hope to get it; the real question in Iraq is whether a sovereign government can be built to endure. For that reason, it makes no sense to talk of an American “exit strategy” from Iraq; albeit under a UN umbrella, America will have to stay to make endurance likelier. But it also makes no sense to talk, as some Americans do, of then pressuring other Muslim countries to adopt democracy. September 11th was not a licence to try to impose American choices on everyone else. To do that would risk intensifying the very conflict that the terrorists presumably hoped to provoke on that murderous day two long years ago.

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Iran's nuclear ambitions

Tightening the rein

Sep 11th 2003
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But even intrusive inspections are no longer enough

WHAT will it take to keep Iran from a bomb? After it was caught repeatedly fibbing about its secretive nuclear work, the other 34 countries on the board of the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog, were this week split, as *The Economist* went to press, over whether to give Iran a final ultimatum to come clean about any dabblings with bomb-useable uranium or plutonium, and to accept intrusive international inspections. Unlike North Korea, which earlier this year flounced out of the nuclear non-proliferation treaty (NPT) and now threatens to show off its "deterrent force", Iran is still weighing its nuclear options. Stopping it from getting nuclear weapons if it is intent on having them will be hard. But the fall-out if it goes on bending or breaking the NPT with impunity will be devastating.

Iran insists that its nuclear intentions are entirely peaceful. It needs nuclear power, it says, to save its vast oil reserves for export. Yet its energy excuse does not add up: the gas routinely flared off from its oil wells would provide electricity more cheaply than the clutch of power reactors now planned in addition to one Russia is already building at Bushehr. Meanwhile the fuel for these reactors—which Iran insists it will handle itself—would provide fissile material for scores of bombs.

Under pressure, Iran has grudgingly let inspectors look around some nuclear sites. Their discoveries so far have obliged it to confess, after years of denials, to buying uranium-enrichment technology from abroad and to experimenting with some nuclear material. However, Iran still denies vehemently that it has ever illicitly enriched uranium. But the IAEA is doubtful of that claim too. Some of Iran's nuclear activity makes sense only as part of a bomb-building effort. Its persistent evasions and cover-ups—a refusal to delay test-runs at its new uranium-enrichment plant at Natanz and extensive changes at another site before inspectors were allowed in—may mask more damning evidence. Iran's offer to "negotiate" about accepting the rules that now give IAEA inspectors more intrusive snooping rights looks like foot-dragging.

Iran's limited co-operation with inspectors, plus its barely veiled threats to pull out of the NPT if pressed too far, may have divided the IAEA's board. But its record of safeguards violations is indefensible. Iran has a choice. It can continue with its threats and evasions and provoke a full-blown crisis. Even if it escaped military action—America has refused to rule that out, while Israel might be strongly tempted to rule it in—Iran would still pay a heavy economic price for continued defiance. Russia wants new inspection rules in place before delivering the nuclear fuel for Bushehr; if Iran keeps fobbing off the inspectors, even Russia would find nuclear co-operation hard to continue. The European Union is already holding up talks on better trade relations, and an NPT-defying Iran could ultimately face wider UN-backed sanctions too.

Iran's other option, of course, would be to make a clean breast of past misdeeds, accept the tougher IAEA inspection regime and allow all the investigations deemed necessary to be sure that this time it had told the nuclear truth. Crisis then over? Unfortunately not.

The tougher task to come

If Iran goes ahead with its nuclear fuel-handling plans, even under the strictest of IAEA snooping rules it will soon have acquired all the skills and materials it would need to break out of the NPT at a time of its

own choosing (the treaty requires only 90 days' notice) and turn nuclear at speed. Allowing Iran to subvert the NPT successfully from inside would deal the treaty a fatal blow. And in a volatile region, even just the enduring suspicion of Iran's nuclear intentions could tempt others—Saudi Arabia, Egypt, Turkey—to reconsider their non-nuclear vows too. The difficulty of getting Iran to sign up for new inspections pales beside the task of persuading it to give up the means to make uranium or plutonium. But that is what it will now take to be certain of separating Iran from a bomb.

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Disasters

Something must (not) be done

Sep 11th 2003
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When disasters prompt new policies, the results may be disastrous

PA

DISASTER demands a response, but it is often the wrong one. That is what the experience of Sir Bernard Crossland, a safety expert who led the inquiry into a disastrous underground railway fire in London in 1987 which killed 31 people, suggests. This week Sir Bernard questioned the £300m ($450m) spent on fire-proof doors, metal escalators and suchlike on London's underground after the disaster. The money, he said, might better have been spent on putting smoke detectors in people's houses. It would have paid for one in every house in the country. House fires kill around 500 people a year, mostly in homes without smoke detectors.

After a disaster, governments' instinct is to halt or restrict the activity concerned. That may be right, but it isn't necessarily. After a rail crash in Britain in 2000, which killed four people, the rail authorities imposed speed restrictions and track inspections. That drove passengers from the railways to the roads. Given that road travel is much more dangerous, this probably caused more fatalities than did the original crash. It also nearly bankrupted the railways.

Arguably, the same could be said of some of the response to September 11th. The initial security measures imposed on airlines were based on hunch rather than serious analysis of costs and benefits. America is now, belatedly, moving away from random screening, which led to absurdly rigorous treatment of obviously harmless categories like small children, veterans and even the planes' own pilots, to a computerised system that checks identities and assesses potential risk.

The same applies to most industrial accidents, environmental catastrophes and health scares. The clean-up after the Exxon Valdez oil spill was hugely expensive and is thought to have damaged the environment more than the original leak. Nature deals with crude oil better than people do. In coping with epidemics like HIV/AIDS, or SARS, simple cheap public health measures (condoms, lifestyle, quarantine) usually work much better than expensive technological fixes like vaccines. The culls of cows and restrictions on movement after Britain's foot-and-mouth epidemic are now generally recognised to have multiplied the cost of the outbreak, rather than containing it.

If possible, the best solution is to let individuals decide themselves how much risk they will bear, and how much safety they want to pay for. Given the choice, many airline passengers might prefer a slightly cheaper flight on an airline that does not carry useless lifevests under every seat, just as they may choose to buy a Lada rather than a Volvo.

Politicians need to avoid bowing to the cries from newspapers that they must be seen to “make things safe”. Encouraging sensible and informed attitudes to risk will make people richer and happier in the long term, but would require courage and honesty up front. Don't hold your breath.

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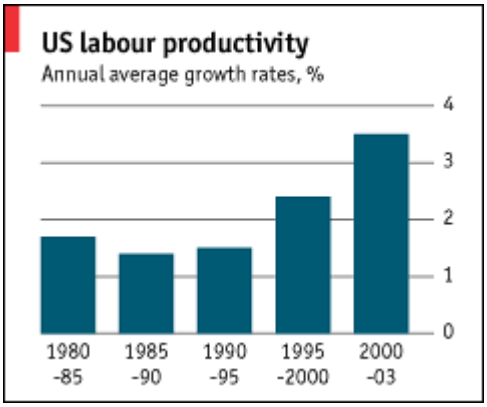
American productivity growth

Paradox lost

Sep 11th 2003
From The Economist print edition

Accelerating productivity is good news for the American economy—for the long term



THE “productivity paradox” has been solved. Robert Solow, a Nobel laureate in economics, once famously observed that “you can see the computer age everywhere but in the productivity statistics”. The failure of massive investments in computers and telecommunications to boost productivity growth has long had economists scratching their heads. Indeed, productivity growth in most countries actually slowed in the 1980s and early 1990s. But in the second half of the 1990s it started to increase in America. Better still, this acceleration has survived the economic downturn (see article), contrary to what many expected. As a result, America's labour productivity has grown by an average of 3.3% over the past five years—its fastest pace for decades.

It may seem odd that productivity growth has continued to rise even as investment in information technology has fallen from its late-1990s peak. Yet this confirms the lessons of history: new technologies do not automatically lift productivity. Firms need to work out how to reorganise their business to make best use of any important new technologies before they can reap the full rewards. That takes time, so the pay-off from computers and telecoms has been delayed. What rate of productivity growth will America achieve over the next decade? Some optimists are betting on 3-4% a year. We still believe that average long-term productivity growth of around 2.5% is more realistic. But even that rate would be a huge gain over the 1.4% average growth of the two decades to 1995. And such an increase would have a colossal impact on wealth creation, doubling real incomes every 28 years instead of every 50.

False profits

In the long run, productivity growth is the single most important economic indicator. Faster growth not only boosts living standards, but should also help, eventually, to reduce America's ballooning government budget deficit through higher tax revenues, and make it easier to pay tomorrow's pensions. This part of America's “new economy” is genuine. But where some pundits and investors have tended to go astray is in evaluating the short-term implications of increased productivity—for profits, share prices and monetary policy.

In the late 1990s, irrational exuberance about the new economy drove share prices higher in relation to profits than ever before in history. Faster productivity growth could mean bigger profits for a while, but profits cannot indefinitely outpace GDP as share-price valuations suggested at the peak of the bubble. In the long run, the share of profits in GDP could well shrink. Information technology has not only lifted productivity growth, it has also spurred competition in almost every kind of business. By reducing barriers to entry and making it easier for consumers to compare prices, computers are squeezing profit margins. In all previous technological revolutions—from railways and textiles to electricity and the car—productivity gains have gone largely to consumers, in the shape of cheaper goods and services, rather than into fatter profits. Why should this time be different?

Faster productivity growth also implies that the Federal Reserve, America's central bank, is unlikely to raise interest rates as quickly as the financial markets currently expect. When the economy has considerable slack and growth is being driven by increased productivity, with no expansion in employment, inflation could continue to decline, even as output rebounds. The Fed may then need to ease rather than tighten monetary policy, or at least keep rates low until employment picks up.

If productivity grows by 2.5% annually and the labour force expands by 1%, then the economy can look forward to long-run annual GDP growth of 3.5%. However, if growth is less than this, unemployment will rise. In the long run, faster productivity growth is obviously good for the economy. But in the short run, if it leads to further job losses, there is a risk that worries about jobs could severely dent consumer confidence and spending, a mixed blessing by any measure.

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Broadcasting regulation

Media madness

Sep 11th 2003
From The Economist print edition

Opposition to a modernisation of America's media-ownership rules is wrongheaded

Ronald Grant

MOST foreigners view America's broadcast media, with its bewildering choice of hundreds of television and thousands of radio channels, as an example of America's fondness for free markets at its most extreme. By contrast with their own heavily regulated industries, and large state-owned public-service broadcasters, America's media market looks like a free-for-all. In fact, American broadcasters have also had to operate within a complex set of rules. And, like anywhere else, changes to these can be sensitive. Over the past few months, a motley collection of pressure groups—all claiming huge support and shrieking hysterically that democracy is in peril from the domination of big media companies—has combined with shameful opportunism from many congressmen to bring a much-needed modernisation of the rules governing media ownership to a shuddering halt (see article).

On the face of it, it would seem hard to deny that the media business has changed since 1941, when the government wrote the first of its rules restricting the freedom of firms holding public-broadcast licences to buy other media companies. Recognising the rise of cable and satellite TV and the internet (none of which is regulated in the same way), in 1996 Congress instructed the industry's regulator, the Federal Communications Commission (FCC), to review its rules in the light of the new competition. When the FCC then dragged its feet, the courts gave the agency a kick in the pants, describing its reasoning as “arbitrary and capricious and contrary to law.”

The new rules, detailed in July, finally acknowledge the extra competition. They relax, in modest ways, some of the earlier restrictions. For example, America's four-biggest television networks are allowed to own stations whose broadcasts can reach 45% of the national audience, up from 35%. Within some local markets, some firms will be able to own three TV broadcasters instead of two. In most markets, media firms will be able to own both a TV station and a newspaper, lifting a blanket ban, although other restrictions will remain. The overall approach seems rather too cautious (the national-ownership cap would remain highly restrictive), but somewhat principled and likely at least to withstand scrutiny from the courts.

So why the hysteria? The answer appears to lie with a decision taken over 15 years ago. As well as promoting choice for viewers and listeners, the FCC was then also vetting content, making sure all broadcasters offered balanced viewpoints, programme formats and so on. With the repeal of its Fairness Doctrine in 1987, the FCC took a big step away from this nannyish approach, and its opponents have never forgiven it. Behind almost every argument about why the FCC endangers democracy lurks a grudge about content: it is too conservative; it is too liberal; it is too violent; it under-represents feminists, or the Catholic Church. Merely cataloguing these conflicting grievances shows the impossibility of ever resolving them.

Capitol Hill static

The FCC's critics claim that public opinion and Congress are on their side. This grossly distorts the true

picture. Three-quarters of the FCC's record mailbag of 2m “angry Americans” came from the protests of National Rifle Association members at the supposedly gun-hating liberal media. Opinion polls suggest that, outside Washington, DC, Americans neither know nor care who owns their local TV station. Congressmen, who are about to reverse the relaxation of the big networks' national-ownership cap by blocking FCC funding, are playing their own distasteful games, opening their pockets to donations from rival groups of big and small broadcasters, and pandering to a vocal minority of pressure groups, while carefully avoiding a direct vote on the rules. The courts, noting the controversy, have put all rule changes on ice to await a judicial review. With policy now in chaos, President George Bush must stand firm, veto any wrecking legislation passed by Congress, as he has promised to do, and back the FCC through the courts in the interests of rational regulation, if nothing else.

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Letters

Sep 11th 2003
From The Economist print edition

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Private space

SIR – In your enthusiasm for privatisation of space flight, you forget a law of physics ("Old, unsafe and costly", August 30th). Burt Rutan's excellent privately funded effort to reach a suborbital high-altitude trajectory falls orders of magnitude short of the energy required to attain earth orbit. Balloons can also reach high altitude at low speeds. The main hurdle to orbit is the energy required to impart safely the high speed that is necessary and the main problem with manned re-entry is to dissipate that energy safely. More light and less heat, please.

Steven Schneider
West Lafayette, Indiana

SIR – Most of the technology used to build the space shuttle and its behemoth support systems were old before the vehicle hit the drawing boards. Having been involved in various bits which fed into the project, I was surprised it ever got off the ground. From the heat-shield tiles which are "glued" on (some of which tend to fall off on each flight) to the insane idea of pumping volatile propellant through the craft to its engines, the shuttle represented the "get it working quickly" approach to space flight.

NASA was not interested in investing the time and money to get things right but was more than willing to throw cash at patching older solutions. NASA should become a technological incubator rather than a space-launch agency, allowing it to offer technologies to a wider space-launch market.

John Crabtree
Scottsdale, Arizona

SIR – Although condemned as old, unsafe and costly, in reality the shuttle has been a magnificent success as the world's first reusable space ship, in line with the very best of NASA's past technological achievements such as the lunar programme. You say that its only real destination is the space station and forget about the numerous other missions it has carried out over the years. Some were only possible thanks to the tremendous flexibility of the shuttle, such as the two repair missions to the Hubble telescope and the retrieval of other satellites.

Philip Schubert
Kanata, Canada

Swamp fervour

SIR – Mangrove forests have for centuries faced a range of threats but since shrimp farming took off in the 1970s the industry has been a big cause of deforestation ("A new way to feed the world", August 9th). Although some reports suggest shrimp farming accounts for only 10% of mangrove loss, other estimates from the industry, academics and governments suggest shrimp farming is responsible for much greater mangrove losses: up to 38% worldwide; for leading shrimp farming countries up to 50%; and for specific regions up to 90%.

Despite a global trade worth some $60 billion, shrimp farming frequently increases landlessness, poverty and debt among the poor coastal communities who pay the real price for the trade, in terms of reduced food security, pollution, erosion of basic human rights and violent conflict.

Steve Trent
London

One law for the rich...

SIR – Your article on the phenomenon of the increased activism of American state attorneys-general fails to mention the ongoing lobbying effort by investment firms ("Enemy of the states", September 6th). Once these firms understood the threat posed by Eliot Spitzer, New York's attorney-general, they began a campaign in Congress for legislation that would make it illegal for attorneys-general to enforce federal-securities laws. The campaign was exposed by Common Cause, a consumer-advocacy group. For a small investor like myself, the spectacle of the federal government considering legislation to prevent its own laws from being enforced is rather sickening.

Vick Fisher
Arlington, Virginia

Current debate

SIR – What began as "deregulation" of the electricity industry has been forced, through the pressure of events, to become something else, namely, regulation with a new objective ("How to keep the lights on", August 23rd). This new objective is increased innovation to improve service and reduce costs. Sometimes, competition can provide the needed improvements; generally, new rewards and punishments must be devised by lawmakers and regulators to push the industry in the desired direction. Discarding the term "deregulation" is the first step in clarifying what is really happening.

W. Raymond Mills
Columbus, Ohio

SIR – As you point out, the growth of micro-power is one solution to the problems bedevilling power grids. The technology of micro combined heat and power (micro CHP) has come a long way in recent years and Britain has a leading position in the development of domestic micro CHP based on Stirling engines. The first commercial sale of these machines occurred in June and the first installations are expected this autumn.

Through an innovative regulatory process set up by the government and the regulator, the main barriers to the deployment of micro-power, such as grid access, are being addressed, and Britain is one of the first countries to have a clear, non-discriminatory access regulation for micro-generators that is supported by the regulator. Within a short time, the power station in a kitchen could become reality.

Andreas Biermann
Energy Saving Trust
London

SIR – Your support for deregulation of America's electric-power system fails to deal with a fundamental dilemma. A competitive market solution will not support redundancy—providers with excess capacity are not cost-competitive. An unfettered market solution simply will not provide the reliability you seek.

Myron Myers
Potomac, Maryland

Bad behaviourists

SIR – So experienced traders in established markets get over their "flaws" (Economics focus, August 30th). They do not succumb to the endowment effect whereby people place extra value on the things that they own. This does not prove that neoclassical economics is right. The theory may be true for a small number of experienced traders but not for anyone else. The theory should be junked.

Sheila Malham
Newmarket, Cambridgeshire

SIR – Traders have been practising many of the theories of behavioural economists for decades. Because they are measured by the profits they make, traders often practise applied theories of cognitive and

behavioural psychology, sociology, anthropology and economics to understand how customers and markets might behave, in fact.

Jan Owens
Kenosha, Wisconsin

SIR – The experiments regarding neoclassical v behaviourist economic theories must consider an additional motive for people who hold on to what they own. A lifetime in business taught me that individuals are often reluctant to admit that their original choices were in error.

Gerard Bourgeois
Morris, New York

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Rebuilding Iraq

Who'll help us? We ourselves, mostly

Sep 11th 2003 | BAGHDAD
From The Economist print edition

EPA

The Iraqis don't particularly want the UN to manage their money or their security. Helping them to political independence is another matter

Get article background

IT IS not just the Americans who question the role of the United Nations in Iraq. The UN questions it itself—and so do the Iraqis. Since May, the World Food Programme has shipped the equivalent of a 25-tonne truck of wheat every minute of every day. On the walls of the Baghdad Convention Centre, home to both the American army's information centre and the American consul, hangs a UN tender for the supply of 841 square metres of glass, part of its emergency assistance programme to Iraq. But the UN's job, say many of its staffers, is to help the world's most vulnerable, not prop up America's occupation of Iraq.

For the past seven years, the UN has run most of Iraq's finances, collecting and dispersing its oil revenues. But the oil-for-food programme is due to expire in November, and there is uncertainty about what functions America, the Iraqis and the UN will now assume. Under UN Resolution 1483, the mandate currently in force, Iraq's oil revenues (bar the tiny portion that goes to Kuwait) are deposited in the loosely monitored Development Fund for Iraq (DFI).

The DFI should be monitored by the International Advisory and Monitoring Board, but its terms of reference are vague, and its members have not yet been appointed. Some members of the European Union want the UN to retain tight control. They argue that aid offered at the donors' conference, to be held in Madrid in October, should go to a multi-donor trust fund under the authority of the UN, and that America should have no access to the DFI until it is properly audited.

But the Europeans' argument has been greatly weakened by George Bush's $87-billion package for Iraq and Afghanistan. Mr Bush allocated $20 billion for Iraq's development in 2004. This had the effect of shunting any real donor role into 2005, much reducing the strings that donors can attach. Coalition officials say funds raised in Madrid will arrive too late for the 2004 budget, though contributions of $5 billion for both 2005 and 2006 will be welcome.

The $20 billion allocation has also paved the way for America to transfer Iraq's budget to Iraqis. At

present, Iraqi ministers complain bitterly about their American shadows; they felt left out in the cold by the 2003 budget, which was drawn up by the American administrator, Paul Bremer. The oil minister, for instance, said he had no idea how much was to be spent on rehabilitating the oilfields, and was told to seek finance on a case-by-case basis.

But Iraqi ministers have themselves helped to draw up the 2004 budget. For the first time in seven years, Iraqis will spend their own oil wealth. Few, under these circumstances, would relish handing responsibility back to the UN.

Iraqis will have a $13 billion budget in 2004, most of it from oil revenues, and all but $1 billion will be assigned for running costs, most of them salaries. The capital budget, the $20 billion, will be managed by Mr Bremer, with most of it going to the rebuilding and reform of Iraq's infrastructure. Of this, $6.6 billion will go to electricity, $2 billion to rehabilitate the oilfields, and much of the rest for public works. In short, American firms chosen by Mr Bremer will mostly lay Iraq's future foundations—however much the EU objects.

AP

Kurdish Zabari, appointed by America

Do the Iraqis care? Not greatly. In 1979, when Saddam Hussein took office, Iraqis had a higher GDP per head than Australia. Today, incomes are lower than Congo's. Most just want the renovation of their dilapidated state, which $20 billion should indeed help jump-start.

On the other hand, the Iraqis are nationalistic. The formula engraved on the oil ministry's wall, “Arab oil for the Arabs”, speaks for many. But the Americans assure them that decisions to privatise, lease, or mortgage the oilfields will be postponed, pending the return of sovereignty.

There are conflicts of interest. The Ministry of Agriculture, with its meagre allocation of barely 1% of the budget, suspects American prairie farmers of lobbying to scupper Iraq's drive for self-sufficiency. The UN has paid for surplus food from abroad until June 2004. After that, America says it has yet to decide whether to maintain the bread-basket, or provide aid that stimulates Iraqi farming.

Iraqis also fear they are being short-changed on reconstruction. Bechtel, an American construction firm, claims it has awarded 41 of the 75 contracts issued under its $680m reconstruction deal to Iraqis. But the Iraqis complain that they are getting tenders for tractor-driving, while the big bucks go elsewhere.

Will the funds be audited? In the past, reporting the Iraqi budget was a crime and, by regional standards, America is offering unprecedented transparency. Minutes of meetings and the budget will be posted on the internet. Many remain uneasy: there were quite a few oddities about the 2003 budget. But the Americans resist the notion of armies of auditors.

By the planned date of transition to a sovereign Iraq, sometime in 2005, Iraq should have $20 billion of oil revenues a year. It will then embark, alone, on the opening up of its oil reserves, cosseted by no more than a defence pact, providing for American bases in Iraq. Such, at least, is the American dream.

The current reality is less rosy. A series of well-targeted attacks have shut down the northern pipeline, which until the start of the war pumped 1m barrels per day to the Turkish port of Ceyhan. This has forced planners to scale down the $3.45 billion of oil revenues, forecast in the 2003 budget, by more than a third. Current oil exports hover around 800,000bpd, or $500m a month, about half as much as

was expected. The sabotage hangs like a Damocles sword over the oil minister's target of 3m bpd by next summer, on which the $13 billion budget for 2004 depends.

Out of Mr Bush's promised $20 billion, over $5 billion is earmarked for Iraq's armed forces. The Americans have accelerated plans for raising an Iraqi army of 40,000 in three years, and will now do it in one. And they have doubled the intended number of police and border guards to 90,000. It is unlikely that this will be enough. America's National Security Council estimated in the spring that, based on experience in the Balkans, some 500,000 peace enforcers would be needed for post-war Iraq. America and its motley coalition now have 155,000 soldiers in the country. Attacks on soldiers are increasing.

But as with oil revenues, so with security: Iraqis would be reluctant to cede responsibility to the UN's blue-helmets. Iraqis of all hues argue that they know their country better than any foreigner, and can better protect it. Members of the Governing Council say they want foreign troops out, not in.

Enter sectarianism

Much of the continuing bad feeling is of the Americans' own making. Suspected Baathists are still being expelled from their jobs, creating a fertile ground from which the resistance can recruit. In Kirkuk, 500 civil servants were dismissed from the education department; another 1,300 were fired from the oil ministry. None has been put on trial—the promised tribunal has yet to open—and some sackings appear motivated at least in part by revenge.

The Americans say that their widespread public works are soaking up excess labour, and will reduce unemployment from 60% to 20% by the end of next year. But technocrats do not want broomsticks, says an oil ministry clerk, they want responsibility. Some of his colleagues were so angered, he said, that they were directing the resistance to key junctions on the pipeline.

The current security problems, however, could pale compared with those that loom. The carving of Iraq's political map according to its matrix of sects (Sunni, Shia and Christian) and ethnicities (Arab, Kurd and Turkomen) seemed a relief after years of Sunni supremacy. But for many Iraqis, America has sown the seeds of future sectarianism, much as the French did in Lebanon after the first world war. For the first time that most Iraqis can remember, the term *ta'ifi*, or sectarian, is no longer taboo. Iraqis who want to climb the political ladder now expect to do it through their sect or ethnic grouping.

There is of course no such thing as an average Iraqi, and Iraq's bumpy assumption of its Arab League seat this week awakened conflicting emotions. Sunnis saw the readiness of that supposed bastion of Arabism to accept a “quisling” foreign minister appointed by the American occupier as a sell-out (all the more so, since the foreign minister, Hoshyar Zabari, is a Kurd), while Shias said that the Arab League's dithering showed contempt for the Shia majority in Iraq. But where differences were repressed under Saddam, they are now becoming official.

The security vacuum has encouraged the rise of militias, who might yet emerge as Lebanese-style warlords. Last week, a near-blind 78-year-old cleric, Muhammad Bahr al-Uloum, who had spent the past decade in Britain, declared he would form his own militia because the Americans could not protect him. The holy Shia city of Najaf, he said, had 2,500 police, but only 400 of them had weapons, and half of those didn't work.

Sunnis call their militias the resistance. Faced with continued attacks, the Shias are arming. Unless the Kurds disarm the *peshmerga* guerrillas, argue Shias, why should we? The Americans have publicly vowed to disband Najaf's militias, but are working with the local governor who has privately encouraged the armed gangs to team up with local police. In the north, too, the Americans are seeking the integration of a few score Kurdish *peshmergas* as firemen, border guards and forest watchmen.

Towards a constitution

Their efforts barely scratch the surface. Militia friction has ricocheted back to Baghdad, where the Governing Council has the task of supervising the writing of a constitution for a sovereign Iraq agreeable to all representative groups. A committee charged with choosing the committee to choose the constitution was due to report back in mid-September, but says it now needs more time. The bickering is fiercest between the Kurds, who are in a rush to get an American-style federal state, and religious Shias,

who want to wait until the Americans leave. The Americans, they fear, would prevent them establishing a link between state and religion.

To slow down the process, Grand Ayatollah Ali al-Sistani, the most widely followed Shia leader, insists that the Iraqis should elect a constitutional congress, fully aware that elections in the current insecurity are a non-starter. The Kurds, who have few powerful ministries but dominate the constitutional committee, want to move faster by choosing representatives from each governorate to draw up a constitution, which will then be put to a plebiscite. The difference could pull Iraq apart at the seams.

Many Arabs suspect that American administrators, under the guise of decentralisation, are fostering a federal system. So might the UN have a role in holding one of its founding members together? Probably, yes. Even pro-American Iraqi Arabs have welcomed the UN's involvement in drawing up a constitution, hopeful that it might prevent a rupture. On the political path to independence, most Iraqis believe that the UN might serve them better than America, setting a timetable for elections and troop withdrawal from cities. But they do not want the organisation to overstep itself.

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The diplomatic front

In search of a new resolution

Sep 11th 2003 | BERLIN, MUMBAI, PARIS AND WASHINGTON, DC
From The Economist print edition

America needs help. Will anyone listen?

AP

Longing for company

BY MAKING Iraq, as George Bush told Americans last Sunday, “the central front” in the war on terror, the president has provided a new, *post hoc* reason for the invasion. America has taken the battle—which is the world's battle—to the enemy, rather than fighting it at home. A video and audio tape of Osama bin Laden, released this week, gives credence to the idea. Ayman al-Zawahiri, al-Qaeda's second-in-command, urges “mujahideen brothers in Iraq...to devour Americans like the lions devour their prey”, and to turn Iraq into their “graveyard”.

But as a description of American policy, the “central front” notion also hides an embarrassment: a change of course. After saying for months that it could handle Iraq by itself, America now needs, and is seeking, help from whoever it can find.

In May, the Pentagon had talked of having 30,000 troops in Iraq by the autumn. It still has 130,000 there. Officials suggested surging oil revenues would make Iraqi reconstruction largely self-financing. The president has just asked for $87 billion in extra money. And an aide to the first American administrator in Baghdad said he had been told to pack just two suits because no one would be staying long. As Colin Powell, the secretary of state, put it with magnificent restraint this week, “We might have underestimated” the difficulties in Iraq.

On September 13th, he and the foreign ministers of the other four permanent members of the United Nations Security Council will meet in Geneva to thrash out a new resolution. America's basic proposal is that the UN should endorse the American-led occupation, allowing countries that had opposed the invasion without UN backing to send troops. A multinational force would then take shape, under both a UN mandate and American command. Then, when the country is secure, the coalition will transfer control straight to the Iraqis. The British think there is no way that America will concede political control to the UN even for a while, though it may accept a NATO presence later.

What will America's critics make of that? Since everyone wants to speed up the handover to the Iraqis, even the hardest cases are trying to keep options open. Despite President Jacques Chirac's blunt declaration last week that the American proposal did not transfer power fast enough to the Iraqi people, and despite the complete lack of French interest, for now, in joining a UN force, there is no talk of France vetoing a resolution. At worst, it may abstain. Privately, the French acknowledge that they will have to accept both the presence of Paul Bremer and his administration, and an American commander at the head of any UN force. But if a lot of UN-mandated troops are sent, they want them answerable to a UN-run authority; and they insist that the resolution should contain a tight timetable for setting up a provisional government and holding an election.

Germany, too, is unlikely to vote against a resolution but wants a clear timetable. Joschka Fischer, the foreign minister, has been talking to Mr Powell about amendments. Germany's bottom line, he says, is a “central” role for the UN and “full transparency” in the efforts to rebuild Iraq. On September 10th Germany, France and Russia all offered amendments to approve American military leadership, as long as American civilian control is quickly handed to others.

Many countries already have troops in Iraq, but persuading others to join in remains hard. America would especially like India, Pakistan, Turkey and Bangladesh to take part. But India's attitude is probably

typical. In July, the Indian government turned down an American request to send soldiers to Iraq. It said it would reconsider if there were a fresh UN mandate; but since the war, in its eyes, was illegitimate, committing troops would still be too unpopular. India will probably hold out for a stronger role for the UN both in managing Iraq's political transition, and in leading the peacekeeping force.

America is also seeking international help with post-war costs, and here, too, there are problems. The new spending bill for next year—$87 billion, in addition to $79 billion already approved, with $51 billion earmarked for Iraq—makes this the costliest reconstruction effort since the Marshall Plan for Europe, and is almost ten times what the first Gulf war cost America (most of that war being financed by others). It will increase the budget deficit from 4.2% of GDP to 4.7%, and, at a time of tax cuts, Democrats will not hesitate to lambast Mr Bush for it. Yet the total, however large, is about the minimum required. The biggest slice goes to the armed forces. The defence secretary, Donald Rumsfeld, said recently that it costs $3.9 billion a month to keep troops in Iraq, so that $51 billion will do little more than maintain current troop levels for a year.

Of the rest, $15 billion goes on reconstructing Iraq's infrastructure—mainly electricity, water, and oil—and $5 billion on retraining the Iraqi army and police. This would be America's contribution to the capital costs of Iraqi reconstruction, which the administration estimates at $50 billion-75 billion. Officials want other countries to stump up the remaining $30 billion-55 billion at a donors' conference on October 23rd-24th. That total, while perhaps on the low side, is probably as much as Iraq can absorb.

The donors' meeting, officials imagine, will be the final stage of reconstruction planning. Of course, it is only the start. As Joe Saba, the World Bank's officer in charge of Iraq, says, “Success is about what kinds of institutions we build, and that cannot be measured in dollar terms.”

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New York City

Two years on

Sep 11th 2003 | NEW YORK
From The Economist print edition

Magnum Photos

Despite a brassy show of resilience, New York has not got over September 11th. Meanwhile, older frailties have begun to emerge

ON THE evening of September 7th, two thin, spectral, beams of light shot into the sky from the north-western corner of the vast construction dig that formerly housed the World Trade Centre. The lights last appeared on the six-month anniversary of the September 11th attacks. Then, the beacon stayed up for 32 days; this time it will be less than a week.

Like many aspects of this year's commemorations, the abbreviated appearance is a modest repeat, possibly because people do not want to reopen barely closed wounds, possibly because the rest of the world has moved on. Last September, Congress reconvened after a two-century absence at its historic home on Wall Street. George Bush came as well. This time, Dick Cheney will show up—and then only at a ceremony at the Port Authority. Last year, most of Broadway was quiet. This year, all the shows go on.

It is probably a good thing that the city is returning to normal—that Wall Street is talking about the extraordinary greed of the stock exchange's chief executive and that the council is squabbling with the mayor about budgets. There are also physical signs of rehabilitation. A temporary train station is due to open at the World Trade Centre in November and a new electricity sub-station is being built.

Meanwhile, that great thermometer of New York's health, the property market, is showing some signs of confidence. Office tenants from the World Trade Centre have returned to downtown. Apartments in Battery Park City, next door to the World Trade Centre site, are once again full. Empty office buildings around Wall Street are being converted to apartments again.

Yet the city's attempts to “move on” are not always convincing. Survival kits, containing water, batteries and a radio, have become common items on desks. Barricades surround buildings. Lower Manhattan, once the centre of American commerce, remains a difficult place to work.

Poll after poll shows New Yorkers are still haunted by the attack, and wary that another might follow. Police believe they thwarted a bombing of the Brooklyn Bridge, and large battalions of cops are still often sent into the subways to ward off possible attacks. There was widespread relief last month when the electrical blackout was found to be merely that.

There are still squabbles going on about September 11th. This week, a court said that the victims' families still had the right to sue the airlines. In a month's time, a committee of hapless worthies are sure

to come under fire when they announce the finalists from some 5,000 entries to build a memorial on the World Trade Centre site.

There are also new worries that the physical damage may have been greater than supposed. Pregnant women who lived in the area ended up giving birth to an unusual number of unusually small children. Air quality, at first said to have been adequate, is now thought to have been dangerously laden with asbestos, glass, lead and concrete. Homes have had to be decontaminated again.

All these things would be much easier to deal with if the city's economy were doing well. But it seems strangely sluggish. The first signs of economic recovery in the rest of America have eluded New York. The city's unemployment rate is 8.1%, two points above the national average. The now-rising stockmarket has encouraged securities firms to add some 10,000 employees since May, but they got rid of 40,000 people in the three years before.

The full extent of the city's problems is brutally outlined in a new report from the Centre for an Urban Future, which tracks the city's economic malaise as far back as the 1960s. “The inescapable truth is that September 11th merely reinforced a trend,” says Joel Kotkin, a co-author of the report.

The city's attempts to “move on” are not always convincing

Even at the recent peak in employment three years ago, the total number of jobs in the city was 2% lower than it had been at the previous peak in 1969—yet in the intervening 30 years, employment throughout America had grown by 90%. In the 1950s and 1960s New York consistently did better in good and bad times than the rest of the country, but in 28 out of the past 32 years New York has had higher unemployment than the country as a whole.

Put simply, New York has been losing old industries faster than other places, and not capturing new ones. Its once-dominant position in manufacturing has long since been lost to Los Angeles. It is no longer the automatic place for headquarters. It is home to no big retailer and it has largely missed the computer and biotech booms. There are venture capitalists in New York, but, according to the report, their venturous investments are elsewhere.

Even the city's strongest franchises have become frayed. It has lost its market share in advertising, publishing and finance. New York dominates investment banking, but not asset management nor, thanks to expansion of local branches, even stockbroking. Since the 1987 market crash, New York's securities industry has added 7,000 jobs; the rest of the country has added 244,000.

Perhaps unsurprisingly, people are following the jobs. The steady stream of people leaving Manhattan for other bits of America jumped last year to nearly 30,000. Meanwhile immigrants, those great renewers of New York, find it more difficult to get there because of the new anti-terrorist laws.

In the end, most of the city's economic problems come back to one thing: government. New York has become a painfully difficult place to do business. For instance, Borders, a bookstore chain that lost an outlet at the World Trade Centre, recently opened on Wall Street to acclaim from every politician in the city. It had taken the store six months and the hiring of specially licensed architects, lawyers and “expeditors” to get its sign approved, a process that elsewhere takes a day. That is New York's burden on business, writ small.

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Indiana politics

A battle begins

Sep 11th 2003 | CHICAGO
From The Economist print edition

A stricken governor prompts change

INDIANA, so often overlooked, moved closer to the centre of American politics this week, after its Democratic governor, Frank O'Bannon, suffered a huge stroke on September 8th. The next day, with Mr O'Bannon lying in a coma and apparently having suffered brain damage, Lieutenant-Governor Joe Kernan stepped in as acting governor.

Mr O'Bannon was due to retire next year. But a bout as his replacement might persuade Mr Kernan, who is also a Democrat, to reconsider his own position. A popular former athlete, Vietnam vet and mayor, he shocked locals last year by saying he was not interested in running for governor in 2004.

By contrast, the White House would probably not warm to the idea of a charismatic semi-incumbent Democratic governor running for “re-election”. It has high hopes for Mitch Daniels, the former budget director and a likely Republican gubernatorial candidate. George Bush won the state handily in 2000, but Indiana has lost 95,000 jobs over the past two years. Plenty of people will be hoping that Mr O' Bannon enjoys a rapid recovery.

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About sponsorship

Campaign-finance reform

Money, politics and justice

Sep 11th 2003 | WASHINGTON, DC
From The Economist print edition

A controversial old debate returns to the Supreme Court

Get article background

WHEN the McCain-Feingold act limiting political donations was about to pass the Senate, the chief opponent of change, Mitch McConnell, said the fight was not lost, but would merely move from Congress to the courts. This week, battle was joined in the highest court of the land, where opinion seems to be more divided than ever. Meanwhile, the ever changing, ever inventive herd of political fundraisers is moving on to pastures new.

The high stakes in the case can be measured by the circumstances. This was the first time the Supreme Court had heard any case during a summer recess since 1974. It was the court's longest hearing since the one on the last attempt at campaign-finance reform, back in 1975. The chamber was crammed. The pile of documents would have reached the high ceiling. As the *Washington Post* put it, here was a clash between “two cherished American values: honest politics and free speech”.

The court spent most of its time on the most controversial parts of the McCain-Feingold reform: a ban on “soft money”—donations that circumvent federal election regulations—and limits on “phoney issue ads” before elections. These are advertisements that hide criticism or support of candidates under the guise of information about general issues.

Supporters of the new restrictions say these provisions simply plug loopholes in previous laws. Since those laws have passed constitutional muster, supporters merely seek to show the loopholes have caused horrible problems and that McCain-Feingold plugs them in a reasonable way. Opponents reply with two different arguments. Some say the plugs go too far; others that the existing law itself may be unconstitutional.

If the justices' questions are any guide (and it must be admitted they are often not), proponents of the law made a good job of arguing the first bit of their case, that fund-raising has got out of step with previous law (ie, that there are loopholes). But there seemed much less agreement on whether the measures to plug them were constitutional, or even whether parts of the law that existed before McCain-Feingold could still pass muster.

Take the restrictions on phoney issue ads. Supporters of reform have cited as a precedent in their favour a 1990 Supreme Court ruling that upheld a Michigan law restricting donations by companies. Chief Justice William Rehnquist voted with the majority then. But this week, he disavowed his own decision, describing the ruling as “dubious”. That suggested Mr Rehnquist, often regarded as a swing voter on campaign-finance issues, might be moving towards the opponents' camp.

A member of that camp, Justice Antony Kennedy, seemed to be digging in further. At one point he accepted that issue ads might make a nonsense of existing law, but implied it might be the law that needed changing. “Why don't we just junk it,” he asked, “and begin anew?”

It is much too early to think the court will take so radical a view when it hands down its ruling. If the chief justice really is becoming more critical of restrictions on money in politics, that would leave the court split down the middle, with four opponents and four supporters of campaign-finance reform. Justice Sandra Day O'Connor will (as usual) have the swing vote.

Money on the move

Supreme Court hearings are a bit like television sit-com pilots. They give you a general idea of the situation and characters but by the time the show actually airs—that is, when the court rules in October or November—there may well be a lot of changes. And in the real world, too, change is proceeding apace.

Parties, lobbyists and big donors have been busy setting up new entities to circumvent McCain-Feingold's restrictions. Republicans are talking about raising $200m for George Bush's re-election campaign, easily a record. On the Democratic side, Howard Dean has raised more than $5m through the internet.

At the moment, neither Congress nor the court seems able to hold back the tide. Unless the court strikes down every campaign-finance restriction (rather unlikely), the pattern described by Ted Olson, the solicitor-general, to the court, will remain: “the cycle of legislation followed by the invention and exploitation of loopholes, followed by more legislation”.

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Arnold Schwarzenegger

On the run

Sep 11th 2003 | SANTA FE SPRINGS
From The Economist print edition

Reuters

The would-be gubernator makes slow progress through a morass of sex, race and ardent conservatism

Get article background

"HE GAVE me a handshake," squeals one small boy, beaming with delight. "Please Arnie, sign this," begs a fat Latina, pushing a piece of paper through the crush. "Ar-nold, Ar-nold," chants a group of bedazzled adults. Handing out prizes to the junior softball teams of Santa Fe Springs, a poor quarter of Latino east Los Angeles, Arnold Schwarzenegger repeats the immigrant's mantra: "It doesn't matter where you're coming from—it matters where you're going to. Any dream you have can come true, but it's up to you."

The Austrian-born Mr Schwarzenegger has already achieved far more than most of the Latinos in Sante Fe Springs would dare dream about. His chances of becoming governor of California seemed to edge forward again this week with the withdrawal from the race of Peter Ueberroth, the former Olympic games man whose basic pitch (one part celebrity, two parts moderate Republicanism) was closest to his own. But from other angles the race looks ever tighter—and nastier.

To begin with, the disposing of the current governor, Gray Davis, no longer looks so certain. On October 7th, voters must first decide to recall Mr Davis (by a simple majority) before picking his replacement from 135 candidates (with the new governor merely having to finish first). A new poll from the Field organisation says that 55% of likely voters want to fire the governor, but that compares with 58% last month, which gives some hope for Mr Davis's strategy of touring the state to express humility and contrition, but not quite responsibility, for California's woes.

Mr Davis is also gaining from frustration with the whole recall process. As Senator Dianne Feinstein, a fellow Democrat, argues in a commercial that pointedly does not name the governor, Mr Davis was fairly re-elected less than a year ago; it would be odd to replace him now with somebody who will probably have picked up fewer votes.

Even assuming that Mr Davis can be ousted, Mr Schwarzenegger has a fight on his hands to win the second, beauty-contest, part of the ballot. The actor may have oodles of media coverage, economic advice from Warren Buffett, a wife from Kennedy stock and an astute campaign team inherited from Pete Wilson, the last Republican governor of California, but the Field poll gives him 25% of the vote, five points behind Mr Davis's far-from-electrifying deputy, Cruz Bustamante. In theory, that gap should be

closed by the exit of Mr Ueberroth, who was stagnating at around 5%. But Republicans fear that Mr Bustamante, the lone Democrat, could get as much as 40% of the vote once the race narrows.

Can Arnold push up his own numbers? Not all the publicity has been helpful. Women's groups have seized on reports that the lovable Austrian is really a sexist groper. This week the actor's wife, Maria Shriver, made a Hillaryesque effort to correct this image. But these character-worries also play to the fear that Mr Schwarzenegger is a macho hulk who needs a script to answer questions. Last week, he ducked the contest's first televised public debate.

Mr Schwarzenegger can probably handle this—and not just because he has made a career out of being cleverer than he appears. He will be at the next debate. His performances are improving: he was impressive in Santa Fe Springs. And he seems to be hanging on to his likeability. This week, the state Senate censured Mr Davis for ridiculing Mr Schwarzenegger's accent.

His biggest problem may be Tom McClintock. The proudly conservative Republican state senator stands at 13% in the polls—and many conservatives are uneasy about the socially liberal Mr Schwarzenegger. If Mr McClintock sticks to the suicidal instincts of the state party and ignores appeals for him to withdraw (“He's smart,” hints Mr Schwarzenegger, “He's good in math”), then a split Republican vote would surely deliver victory to Mr Bustamante.

Can Arnold push up his own numbers? Not all the publicity has been helpful

Unless, of course, Mr Schwarzenegger can unpick Mr Bustamante's hold on the Latino vote. Latinos account for only some 16% of the likely voters, but they have been reliable Democrats and now they have a Latino gubernatorial candidate.

Mr Bustamante's people are giving the actor no quarter. Mr Schwarzenegger was only in Santa Fe Springs because the organisers of last Sunday's Mexican Independence Day Parade in Los Angeles decided to “dis-invite” him at the last minute. The Democrats have painted the generally centrist actor as “anti-immigrant”. Mr Schwarzenegger opposes Mr Davis's electorally expedient plan to allow up to 2m undocumented (by implication, illegal) immigrants to have driving licences. He also supported Proposition 187, which attempted to deprive illegal residents of public services (and which was championed by his friend, the then Governor Wilson).

The final cut

Mr Schwarzenegger can probably defend himself against some of this. Only a year ago, Mr Davis opposed giving licences to undocumented immigrants too. Mr Schwarzenegger points out that he was once a desperately poor immigrant, toiling as a bricklayer to buy his muscle-building supplements. And he emphasises his support for affirmative action, saying no to Proposition 54, which will ask voters to ban the gathering of statistics by race.

And if all that fails to convince? The candidate has a final pitch: “I love the Latin community. I love Mexico. I've done four movies down there—‘Collateral Damage’, ‘Conan the Destroyer’, ‘Total Recall’, ‘Predator’: all these movies were done there because it's a great place to shoot.” Whether that is a winning pitch for Latinos who also thought it a great place to leave, the Terminator will soon find out.

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About sponsorship

Cape Cod

A tempest off Nantucket

Sep 11th 2003 | BOSTON
From The Economist print edition

A row about wind power divides one of the prettiest bits of America

DRIVING across the bridge to Cape Cod can feel like taking a step back in time, entering a land of grey shingled homes and craggy fishermen, where the pace of life is blissfully slow. So it's odd to think this curlicue of land could host a battle over the future of American energy.

Yet that's the sort of language people use these days when they talk about Cape Wind, a company that hopes to build the nation's first offshore wind farm a few miles off Cape Cod's coast. If approved by the Army Corps of Engineers—after a lengthy permitting process that few doubt will involve a lawsuit—its 130 turbines would provide three-quarters of the Cape's electricity, pollution-free. They would also be visible from beaches along Cape Cod, Martha's Vineyard and Nantucket, where some of the nation's wealthiest liberals own valuable property.

Cape Wind proponents have done quite well at casting people like the Kennedy family as not-in-my-backyarders who would otherwise embrace wind power. Yet the company has also been helped by the fact that the Cape's population is poorer than it at first appears. Alongside the holidaying bankers and television people, it has a growing and less wealthy population of “year-rounders”—and many of these permanent residents would quite like to reduce the reliance on tourism. Some seem to like the idea of the Cape as a national energy pioneer.

Local greens are split. At the moment Cape Cod gets its power from an oil-fired plant, a coal-fired plant and a nuclear reactor. But is it worth cluttering Cape Cod's open horizon? Some even object to the idea of a company being able to take over a 24-square-mile chunk of Nantucket Sound, or any other body of water. Unless people want a string of wind farms along the east coast, America needs to devise a system for regulating them, says Isaac Rosen from the main opposition group, the Alliance to Protect Nantucket Sound. “The ocean,” he says, “should not be less deserving of protection than the land.”

That's the way this battle has gone for months, with each side claiming to be the more credible environmentalist, as well as the more honest broker. The Alliance says Cape Wind can't be trusted because it stands to win tax credits and make a profit. Cape Wind says the Alliance can't be trusted because its boss once ran a copper company that did its share of polluting.

The newscaster who has been called “the most trusted man in America”, Walter Cronkite, who lives in Martha's Vineyard, originally appeared in ads for the Alliance. But last month, after meeting with Cape Wind's president, Jim Gordon, Mr Cronkite asked for the ads to be pulled, and says he is reserving judgment.

Now, he and others are waiting for results from a set of environmental studies, which may be released by late autumn. If they give the project a clean bill of health, some green groups will push for it. Cape Cod is especially threatened by the rising sea levels that accompany global warming, says Seth Kaplan, an attorney with the Conservation Law Foundation. Any step to reduce greenhouse emissions could help, he says. “If we don't do something about this, it's just going to be gone.”

It may also come down to a fight over aesthetics. Cape Wind's opponents call the turbines a blight on the landscape, and even some proponents consider the view a sacrifice not an asset. Mr Gordon, though, makes two separate counter-arguments. The first is that the turbines will hardly be visible, painted a blue-grey that will blend into the sky, barely jutting over the horizon when viewed from a distant shore. The other is that, in fact, they will be pretty. “Many, many people believe that wind farms are interesting and inspiring and beautiful,” he claims.

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Intolerance and social policy

Needle points

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From The Economist print edition

Political posturing makes the lives of drug addicts even less healthy

OUT of all the unbecoming parts of drug addiction, the search for clean needles is particularly ghastly. Dirty needles account for a third of all reported AIDS cases: they also explain why half of all long-term addicts get hepatitis C.

California is particularly lethal in this respect. A few counties boast needle-exchange programmes, but owning syringes is still illegal (and police often wait around the exchanges and confiscate needles). According to a new report from Human Rights Watch, most Californian junkies either share syringes or dig used needles out of garbage dumpsters. So you would imagine widespread acceptance for a bill that California's state Senate passed on September 4th, which would authorise pharmacies to sell anybody 30 syringes without the need for a prescription, and allow that person to own them.

In fact, California's governor, Gray Davis, vetoed a similar proposal last year—and may do so again. He is hardly on a limb. The use of federal money to support needle-exchange programmes has been banned since 1988. Most states prohibit the unauthorised possession of syringes, and only three ban police from arresting people with needles from exchange programmes.

Many politicians, including George Bush, claim needle exchanges undermine the war on drugs. This mantra lacks but one thing: evidence to support it. Studies show the provision of clean needles does not increase either crime or drug use. On the other side, there is no end of evidence that dirty needles cost a lot of taxpayers' money in AIDS treatment, and shorten many lives.

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Lexington

His aim is true

Sep 11th 2003
From The Economist print edition

Joe Lieberman's tough love—and why it might just work

THE primary season is a time for unqualified pandering. So what is Joe Lieberman up to? He still gushes a bit, of course, and he engages in routine Bush bashing. But he also tells anti-war activists that their posturing is out of place in an age of terrorism: Americans will never elect anybody who sounds "an uncertain trumpet". He warns protectionists that their blather about "fair trade" could turn a recession into a depression. And he berates big-government liberals for wanting to raise taxes on the middle classes. The more the Democrats move to the left, the more he chastises them for their infantile disorders.

This is wonderful to watch. In 2000, Mr Lieberman disappointed his fans by selling his principles for populist potage. It was impossible to listen to his mishmash of boilerplate rhetoric and cheap sentimentality ("Is this a great country or what?" he kept bellowing) without wondering what had happened to the other Joe: the man who stood up for school choice and strong defences. Now—on occasions at least—the other Joe is back.

Is such abrasiveness sensible politics? Most politicians start dealing in uncomfortable truths only when they have either gone off their rockers or reconciled themselves to failure. Mr Lieberman is certainly not doing as well as he ought to be, given that he was half of the team that won the popular vote in 2000. Simple name-recognition is putting him ahead in national opinion polls. But he is equal third in New Hampshire, a distant fourth in Iowa, and nowhere whatsoever in Buzz City. He is the candidate to get booed most (for his support of the war and opposition to gay marriage), and his campaign team has already had to be rebuilt.

Yet there is method to Mr Lieberman's madness. The Connecticut senator can never become the darling of what Howard Dean calls "the Democratic wing of the Democratic Party", particularly in its current mood of foaming-mouthed Bush hatred. He cannot outpander Dick Gephardt when it comes to dealing with big-government liberals. So why not stick with his principles this time? Let the other eight candidates squabble over the party's activist base. He will content himself with the party's right wing—with its war hawks and family-values types, with the sort of people who can still see the difference between George Bush and Beelzebub.

That right wing is pretty small, but Mr Lieberman can lure in centrist Democrats by claiming that he represents the "electable wing of the Democratic Party": the wing that believes in governing rather than

venting. This week he told a noisy meeting of the Service Employees International Union that he stood for the principles that had allowed Bill Clinton to win two terms. He could go toe-to-toe with Mr Bush on his strong suits—national security and social values—while mercilessly harassing him on his weak ones, the economy and right-wing extremism. “I know we—and I particularly—can beat George Bush,” he said, “because Al Gore and I have already done it.”

Mr Lieberman even has a strategy for turning his principles into votes. He knows he has no chance in Iowa and New Hampshire. But he hopes that his national name-recognition and moderate politics will rescue him thereafter. His campaign is particularly hopeful about what it calls “Tidal Wave Tuesday”—the seven primaries on February 3rd that bring large numbers of southerners and westerners to the polls. Mr Lieberman is holding his own in South Carolina, where four Democrats are just about even, and is ahead in the most recent poll in Arizona (admittedly taken back in July). The hope is that these voters will act as a firewall against the Dean insurgency, and persuade the Democratic Party to rally around its most electable candidate.

To be a little more precise, Mr Lieberman is gambling on three things that may well happen. The first is that Mr Dean succeeds in crushing Mr Gephardt in Iowa and John Kerry in New Hampshire. The next is that the Democratic establishment decides that Mr Lieberman is a safer bet for the ABD (Anyone But Dean) vote than young John Edwards, an inexperienced southern senator. And third, that Mr Dean blows up. If he continues to run as well as he has so far, he will be unstoppable. But if he makes a terrible gaffe—Mr Dean has a temper on him—then he might just create an opening for a more conventional candidate.

The realists' man

This is an optimistic reading of the race, of course. Tidal Wave Tuesday could equally well wash Mr Lieberman away. Insurgencies can be difficult to stop once they have enough momentum. Mr Bush was only just able to stop John McCain in South Carolina—and he had the whole of the Republican establishment behind him. Mr Lieberman is not the only Democrat competing for the ABD vote. And his aggressive support for the war is not quite the asset that it once was with moderates, given the mounting problems in Iraq.

All the same, it is worth keeping an eye on this new Honest Joe. For the current fight is not just about who the Democratic Party nominates next year, but about the future direction of the party. For all Mr Bush's problems in Iraq, Mr Dean may well be just too left-wing for America. Vietnam was hardly an uncontroversial war, but the Democrats lost five out of six presidential elections in 1968-88, partly because their opposition to that war cost them the trust of the American people.

A Dean debacle would give the Clintonian New Democrats a chance to capture control of the Democratic Party, just as they did in the late 1980s. It would also turn Mr Lieberman into the leading architect of the party's recovery—somebody, unlike Hillary Clinton, who put their head above the parapet to defend the cause of moderation. When she comes forth to claim her inheritance, Mrs Clinton may well find that the realist wing of her party already has its champion.

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Argentina

Néstor Kirchner's nimble cookery

Sep 11th 2003 | BUENOS AIRES
From The Economist print edition

Reuters

A huge default is followed by an unexpectedly appetising deal

Get article background

ECONOMIC records tumble easily in Argentina. When it defaulted on $132 billion in loans in December 2001, it achieved the largest and most complicated sovereign debt default ever. After missing a $2.9 billion payment to the International Monetary Fund on September 9th, it distinguished itself with the single largest non-payment of a loan in the Fund's history. The next day, it clinched a deal that may be the speediest and kindest the IMF has ever agreed to.

The deal lasts three years. Under it, $21 billion-worth of debt will be refinanced with multilateral lenders, of which $12.3 billion is with the IMF. Final approval of the deal, says Horst Köhler, the IMF's managing director, depends on Argentina making that $2.9 billion missed payment before the IMF board meeting on September 19th; Roberto Lavagna, the economy minister, has promised to do so. Argentina should then be on the way to restructuring its whole $90 billion worldwide package of privately held defaulted debt.

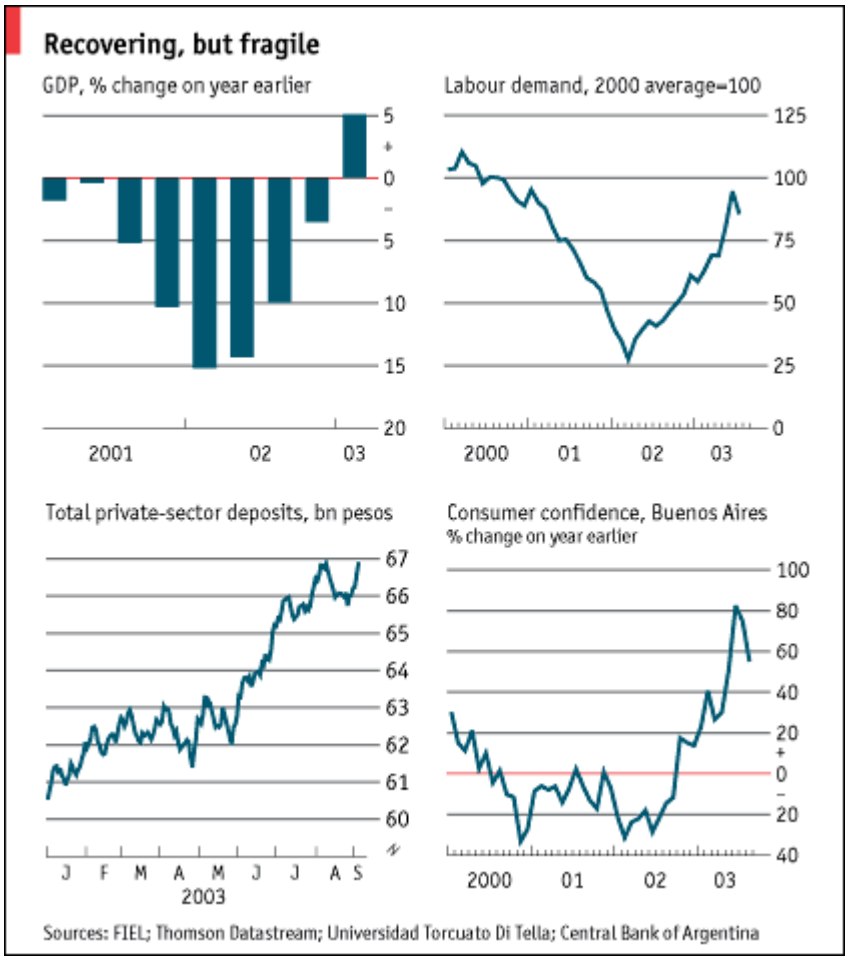
The two sides had been arguing for months, with Argentina—mostly in the person of its hugely popular new president, Néstor Kirchner—refusing to agree to any terms that would weaken the country's fragile recovery. Mr Kirchner blames an IMF-backed austerity plan, imposed in 1999, and ten years of “very bad advice” from “some IMF officials”, for pushing the country into four years of recession and a traumatic 11% slump in GDP last year. The default was the final act of defiance: to pay up, said the Argentine government in a cool, self-justifying press release, would have used up a quarter of its international-currency reserves. In the end, the IMF appeared to give way on almost all the issues that had been in dispute.

First, the question of the country's fiscal surplus. The IMF, in an extraordinary fit of kindness, has accepted Argentina's commitment to a 3% primary surplus (ie, before interest payments) for 2004. It had originally wanted 3.5%—in itself, a low figure—in 2004, rising to 4.5% by 2006. Now a more gradual progression is allowed, which Mr Kirchner can present as tailored to Argentina's pressing need for jobs and growth. Without running a bigger surplus, Argentina will find it hard to meet even the payments on its non-defaulted local debt, much less renew payments on the rest. But Mr Köhler hopes to see some “rigour” from the government, and the economy ministry has promised a long-delayed restructuring plan

before the IMF annual meeting in Dubai later this month.

Another sticking point, tariff increases for the country's privatised utilities, some of which have been losing money since devaluation in January 2002, was dropped from the agreement. When the IMF argued that the price rises were essential to restore the faith of investors, Mr Kirchner responded that the Fund should not be lobbying for particular business groups. Now not even a timetable for tariff rises features in the deal. Nor is there any mention of compensation to the banks for the government's ham-fisted attempt to devalue loans and deposits at different exchange rates—something, again, which the IMF had long been asking for.

Mr Kirchner has followed an unwavering course, not only defying the Fund at home but pleading his cause adroitly with the Fund's shareholders in Europe and the United States. And he has the public squarely behind him. They have no sympathy for blackout-prone utility companies, or deposit-freezing banks, or, least of all, the IMF: according to Ricardo Rouvier, an opinion pollster, 70% of the public opposed using reserves to meet the latest payment to the Fund. “Nobody should come and scare us with chaos and the seven plagues,” Mr Kirchner has declared. “Let's believe in ourselves.”



Certainly, the prophets of doom have a poor track record. The economy will grow by around 5% this year, while inflation will be around 15%. Although the financial system is still shaky after devaluation, no meltdown occurred, and bank deposits are increasing (see chart).

Mr Kirchner is also managing to reinforce his power base, highly necessary for a man who won election earlier this year with a mere 22% of the vote. The present election season, which runs until December, will replace most provincial governors, half the Chamber of Deputies and a third of the Senate. So far, Mr Kirchner looks likely to increase his support in Congress to 30 deputies or so. That is still only a quarter of the Peronist block, however, and he will remain the junior partner in his alliance with his powerful predecessor, Eduardo Duhalde.

If he is to retain his ascendancy, he will therefore need to reduce unemployment and poverty. Almost 16% of the population is out of work, and over 50% lives below the poverty line. Once the elections are over, some believe Mr Kirchner will be more polite to the IMF and foreign investors. For now, however, he has lost nothing by negotiating with his creditors as if he had nothing to lose.

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Brazil's tax reform

Scrambling for money

Sep 11th 2003 | SÃO PAULO
From The Economist print edition

Everyone wants the new tax code to bring a bonanza

Get article background

THE tax system in Brazil does one thing well: it soaks up lots of money to finance a massive public debt and feed a hungry state. Apart from that, it nobbles enterprise, sows conflict among regions and levels of government and penalises the poor. Because of taxes, Brazil is poorer and more unequal than it needs to be.

Brazil's president, Luiz Inácio Lula da Silva, made tax reform one of his top two priorities for his first year in office (the other is pruning an over-generous pension system for civil servants). In a pre-dawn vote last week, amid a flurry of redrafting and horse-trading, Mr da Silva's political managers pushed through the lower house of Congress a constitutional amendment that would begin to correct some of the system's flaws. It was an impressive victory, which did not need opposition votes. But was it a victory for Brazil?

The reform takes aim at some of the chief evils of the tax system. Under a bewildering value-added tax (VAT) system, called ICMS, each of 27 states imposes its own regime; a quirk encourages some to poach factories from others by offering tax subsidies that other states end up paying for. The reform would simplify the ICMS and end the “fiscal war”, which beggars governments and distorts investment decisions. It tackles the blight of “cumulative” taxes, which, unlike value-added taxes, weigh on a firm's every transaction, creating weird investment incentives and competitive handicaps. The reform seeks to make taxes more just, by directing benefits to poor regions and to poor citizens.

Yet it has triggered a scramble for revenue among regions and various levels of government. The upshot may be a jump in the tax burden, already much higher than in most middle-income countries (see chart), and a tax code nearly as Byzantine as the current one. Years of low economic growth and tight budgets make this a “bad moment” for tax reform, says Claudio Vaz, who watches the issue for the São Paulo state industry federation. “In this climate, everyone wants more.” On September 10th, nearly a third of Brazil's 5,600 mayors converged on Brasília, the capital, to demand a bigger share of the tax pie.

Reinventing the ICMS, the centrepiece of the reform, threatens two groups. One is ordinary taxpayers, who may end up paying more when the jumble of 44 state rates is sorted into five national ones. When diesel can be taxed at 12% or 18%, hard-up states will be mightily tempted to opt for the higher rate. The second potential group of victims are industrialised states, such as São Paulo. They are the ones losing factories to the fiscal war, and so they stand to gain from a peace. Yet the solution—shifting tax revenue away from the state where a good is produced to where it is consumed—hurts states that produce a lot. São Paulo stands to lose up to 13% of its revenue from the measure, says the state's finance secretary, Eduardo Guardia. Industrial states want, and look likely to get, a revision in the terms of the revenue shift that will cut such losses.

Other improvements are also double-edged. COFINS, a cumulative villain, is to become something like a normal VAT; businessmen fret that the government will exploit the change to extract additional revenue from the tax, which helps finance social security. Industry wanted tax exemption for capital goods; what it got was a vague

promise of reduction. Tax giveaways by the federal government to states and municipalities will compel it either to reduce spending (which is unlikely) or raise taxes to make up the shortfall.

The main virtue of the proposed reform is that it makes a regressive tax system slightly less so. Poor states get more money; poor people will benefit from a new stipulation that basic goods are to be taxed at the lowest rate of ICMS, and may be exempted entirely. But, says Ricardo Varsano of the government-linked Institute of Applied Economic Research, “there is not much improvement in the essential, which is to remove the perverse effect of taxes on production.”

Last week's vote was just a beginning. After dealing with amendments, the lower house will vote on tax reform again and send it on to the Senate, which will also vote twice. Much of the substance will be left to supplementary laws. Lobbies will clamour at every step. The Senate may end up deferring the toughest issues for another year. If Brazil waits to overhaul its tax system until the economy is stronger and states are less desperate for revenue, that may be no bad thing.

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Venezuela

With us or against us?

Sep 11th 2003 | CARACAS
From The Economist print edition

Supporters of the recall referendum are paying the price

Get article background

Reuters

They didn't sign

SOME days ago, Venezuela's newly-staffed National Electoral Council (CNE) was visited by a police “rapid-reaction” squad. The men wore helmets and flak jackets, and had state-of-the-art assault rifles. It is possible—just—that this was not intimidation by the embattled government of President Hugo Chávez. But since the CNE's board has the delicate task of deciding the validity of the more than 3m signatures supporting a recall referendum against Mr Chávez, it looks that way.

The president, an unsuccessful military-coup-monger, is always uncomfortable with democracy. The constitution devised by him in 1999 made the CNE an independent branch of government, but Mr Chávez constantly interferes in its affairs, warning it against validating “illegal” signatures and ordering it to reconfigure itself before organising any referendum.

Those who dared to support the recall are also being singled out for persecution by public-sector employers, including ministries, the armed forces and the powerful state oil corporation, Petróleos de Venezuela (PDVSA). Although the previous CNE would not publish the names of the signatories, the database containing the names and identity-card numbers of those who signed an earlier petition, delivered last November, was leaked to Luis Tascón, a legislator from Mr Chávez's Fifth Republic Movement (MVR). Mr Tascón published them on his website, and threatens to do the same with the latest batch.

The first to suffer the consequences were military officers, subjected to disciplinary hearings and even discharged for signing, though the 1999 constitution gives them almost the same political rights as civilians. Then came PDVSA. The oil corporation had already sacked over 18,000 workers for striking in December and January, and had forced its contractors to deny them jobs. Now PDVSA is using the referendum database to filter applicants for work. The man in charge of personnel is Asdrubal Chávez, the president's second cousin; he declined to answer questions.

The police visit to the CNE was part of a surprise raid by a judge and prosecutor investigating allegations that some signatures had been forged. But the number of alleged forgeries is far too small to justify such a raid, or to invalidate the process. More ominously, there is growing evidence that some of those complaining about “forgery” did in fact sign, but had to retract on pain of losing their jobs.

The 1999 constitution outlaws discrimination on the basis of political beliefs. It obliges the state to punish violations of human rights. And, to keep the authorities honest, it creates yet another branch of government, the so-called “moral power”, which includes the office of an ombudsman, or “defender of the people”. Unfortunately, Germín Mundaraín, who holds the job now, is slavishly obedient to the government. He has, he says, received no complaints about this kind of job discrimination. Meanwhile, according to several current and former members of his staff, he himself is carrying out a purge of opposition supporters in his office.

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Bolivia

Highly flammable

Sep 11th 2003 | LA PAZ
From The Economist print edition

Natural gas has become an explosive political issue

Get article background

THOUSANDS of marchers tramped for seven days to La Paz, Bolivia's capital, this week to “declare war” on a range of government policies. From September 19th, things will get worse: a countrywide series of strikes, marches and road blocks, orchestrated by Evo Morales and his Movimiento al Socialismo (MAS) party. The protesters' targets include new free-trade initiatives and new tax rules. Top of the list, however, are plans to sell natural gas via Chile to Mexico and the United States.

Bolivia holds Latin America's second-largest reserves of natural gas. If it does not sell some abroad, it cannot grow. The IMF estimates that Bolivia's oil and gas sector could add an average 1% to GDP growth over the next five years, if projects to market the gas materialise.

Since Bolivia itself uses little gas, it can send most of it elsewhere. At present, though, its only big customer is Brazil; and Petrobras, a Brazilian oil firm, has just announced a huge gas find there. Bolivia therefore needs to look further afield. Three companies calling themselves Pacific LNG (RepsolYPF, British Gas and PanAmerican Energy) have long wanted to sell the gas to Californian power plants. Pacific LNG believes the project, which involves spending $3.1 billion to build pipelines and a coastal terminal, is economical only if the gas goes through a Chilean port, most probably Patillos.

Government studies also prefer this route. But nationalists oppose it. Ordinary Bolivians have never forgiven Chile for snatching Bolivia's coastline, including the region around present-day Patillos, in a war in 1879-83. Most of them cannot stomach the thought of their gas flowing out through Chilean ground. They want it to leave through Peru.

Even if this obstacle is surmounted, left-leaning Indian leaders do not want the gas sold at all. Many believe that, if it is, the United States and multinational oil companies will benefit from cheap gas at Bolivia's expense. And few trust the government to spend gas revenues wisely.

Indeed, few trust it on any issue. Despite reinforcing his coalition government in August, President Gonzalo Sánchez de Lozada is still deeply unpopular. Some analysts think he may be toppled by the armed forces if he opts for the Chilean gas route. With nervous politeness, Mr Sánchez has invited the military men to carry out their own study of the project's potential benefits. He also says he may review the country's 1996 hydrocarbons law, which paved the way for oil privatisations. This will merely unsettle the oil companies, who are already concerned that $2.5 billion invested in Bolivian gas deposits may remain buried for ever.

Of late, the oil and gas sector has been responsible for almost half of Bolivia's foreign investment. But the head of the state oil company, Raúl Lema, has given warning that if investors are put off, and the gas fails to get to market, Bolivia's oil self-sufficiency will end within four or five years.

And time for the project is fast running out. The most likely buyer for Bolivia's gas is Sempra Energy Corp., but with only room for one such gas-import scheme in the market, Sempra faces stiff competition. Other companies, including Shell, have plans to supply the same markets using gas from Alaska and the western Pacific. While Bolivians nurse old grievances, their country moves closer to collapse.

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Japan

A stimulating contest

Sep 11th 2003 | TOKYO
From The Economist print edition

The LDP's leadership battle pits Junichiro Koizumi against three big spenders

Get article background

CAN Japan spend its way out of trouble? Many members of the ruling Liberal Democratic Party (LDP), undaunted by public debt of more than one-and-a-half times national income, want the government to try. They are therefore furious with Junichiro Koizumi, who, they say, has been too tight-fisted since taking over as the LDP's president, and Japan's prime minister, in April 2001. On September 20th, when the LDP elects its leader for the next three years, Mr Koizumi's rivals will try to tap that fury and force him from office. All three of his challengers have centred their attacks on his fiscal policies.

They fault Mr Koizumi, who memorably pledged to hold fresh borrowing below ¥30 trillion (around $250 billion) a year when he took office, for pushing painful reforms harder than efforts to stimulate demand. In fact, Mr Koizumi broke his fiscal pledge last year, and the IMF reckons that Japan will run a whopping fiscal deficit of 7.7% of GDP, or ¥38.2 trillion, in 2003. Even borrowing on this heroic scale, however, is not nearly enough to satisfy many of the LDP's staunchest backers, who tend to hail from the construction industry, small rural districts, and other heavily-subsidised segments of the economy.

Two of Mr Koizumi's rivals—Takao Fujii and Shizuka Kamei—have accordingly said they will dole out another ¥10 trillion of stimulus spending if they are elected, just for starters. Then they get serious. Mr Kamei would next like to spend an additional ¥30 trillion-50 trillion this fiscal year, which ends in March, on infrastructure projects and other demand boosters. He says he would then increase spending by yet another 5-10% a year for the following three years. Because Mr Koizumi's third challenger, Masahiko Komura, comes from a tiny faction—Mr Fujii is from the largest, led by Ryutaro Hashimoto, and Mr Kamei's faction is also big—he poses no threat to Mr Koizumi; but rather than try to distinguish himself with a fresh economic message, he, too, has championed a hefty fiscal solution to Japan's woes.

In their haste to spend more money, the challengers make two broad points about the numbers. One is that the public sector holds social-security and other assets which partly offset its liabilities. So while the IMF reckons that Japan's gross public debt had reached 158% of GDP by the end of 2002 (an oft-cited figure), it puts net public debt at 72% of GDP. Even the lower figure is not reassuring, however. Besides high annual deficits, which add rapidly to this debt mountain each year, Japan must also worry about its

rapidly ageing population and its rickety financial system, each of which poses a threat to public finances.

Mr Koizumi's critics are on to a better argument with their second point: that one reason Japan's debt and deficit ratios look so bad is that the denominator, GDP, has not been growing. Mr Kamei points out further that tax revenues slid sharply last year as the economy slumped, pushing debt levels up another notch. Whatever the long-term risks of continuing to borrow, therefore, the risk of not borrowing may be worse, if the economy remains stagnant as a result. So, far from preserving Japan's fiscal soundness, say Mr Koizumi's opponents, the prime minister's structural reforms and fiscal prudence are making the public finances worse.

The trouble with this argument, however, is that it assumes fiscal spending alone can get the economy growing again. It may be part of the solution: although Japan has been slumping since 1991, the deflationary spiral might well have been worse without large dollops of spending. But fiscal stimulus would go further if the budget were overhauled to spur demand, rather than buy off LDP supporters—and even then, only if paired with reform ideas such as Mr Koizumi's. These aim to remove many of the obstacles which appear to be holding the economy back. These ideas include efforts to clean up the banks' bad loans so that credit can begin flowing and confidence can return; to privatise the postal system, including its pool of misallocated savings and life-insurance funds; to deregulate the economy and devolve power, so that new firms and industries can gain a foothold; and to reform taxes with an eye towards promoting growth.

Although Mr Koizumi's LDP rivals say that these reforms have not worked, they have not really been tried—because the LDP has stymied them at every turn. Some party members say that they support structural reform, but that fiscal stimulus must come first. Others say that the reforms are misguided, whatever the timing. And some even say both. Mr Kamei, at a press conference last week, said that he agreed with Mr Koizumi about the need for structural reform, but then argued that the prime minister placed too much emphasis on competition, and was promoting a vision of Japan in which “the strong gnaw on the bones of the weak”.

In fact, Japan's food chain runs in the opposite direction: its weak and uncompetitive companies, aided by the LDP, continue to suck the life blood from the few Japanese companies worth saving. Winning the LDP election will help Mr Koizumi only if it helps him to overcome this resistance to reform. The early indications, as the campaign got under way on September 8th, were that winning would be the easy part. The *Mainichi Shimbun*, a daily newspaper, reported that the prime minister seemed likely to win in 36 of the 47 prefectures. That would give him many of the 300 votes allocated to local LDP members.

Mr Koizumi has also managed to divide several big factions that only a month ago were at risk of uniting against him. That should win him a healthy share of the 357 votes allocated to the party's members of parliament. Last week, for example, Mikio Aoki, the LDP's upper-house leader, managed to persuade the Hashimoto faction's 42 upper-house MPs to back Mr Koizumi. On September 9th, Hiromu Nonaka, a Hashimoto-faction heavyweight and fiercely anti-Koizumi MP, announced that he would soon retire from politics. Mr Nonaka said that before leaving he would do all he could to help unseat Mr Koizumi, but his resignation is likely to leave anti-Koizumi MPs even more disheartened.

The question remains, however, whether this will help Mr Koizumi in his reform battles. His ideas are so unpopular in the party that many of those who support him, such as Mr Aoki, do so more for tactical reasons than for ideology. Mr Koizumi seems likely to win, but he will then face strong pressure, as always, to compromise—and spend.

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Nepal

Sinking fast

Sep 11th 2003
From The Economist print edition

Nepal is fast becoming a failed state

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BOMBS, political murders and the imposition of curfews have stunned Nepal. A civil war between the security forces and Maoist insurgents has resumed after the rebels withdrew from six months of peace talks with the government at the end of August.

Dozens have died in the past week in clashes between rebels and the army. A savage urban bombing campaign blamed on the rebels has left dozens injured, and killed a 12-year-old boy. Seven bombs exploded on a single day, bringing Katmandu to a standstill and leaving large parts of its outskirts under curfew. Rumours of a rebel hit-list comprising 217 prominent political and government officials sent shock waves through the country's elite. Last week, a former cabinet minister and an army officer were shot dead by the rebels shortly after they abandoned the peace talks.

The country is in political turmoil too. There was speculation this week that King Gyanendra was about to change his government for the third time in the past 12 months. Nepal's political parties, dismissed from power last October by the king, have added to the chaos with ever-swelling protests calling for the return of parliamentary democracy. At last count, several thousand political activists had been arrested for defying an outright ban on all demonstrations. Among them was Girija Prasad Koirala, a three-time prime minister and veteran of the 1990 uprising that ended decades of absolute monarchy.

Nepalese newspapers speculate that King Gyanendra, desperate for the support of the political parties, may decide to include some of them in a new government—something that the rebels have already said they will not accept. The Maoists blame the king and his hand-picked cabinet for the failure of the latest round of negotiations. They are demanding sweeping constitutional change, including a referendum that could end the monarchy.

All this is doing inestimable damage to an already impoverished economy. Tourism had recovered significantly during the ceasefire but is now sure to decline again. Foreign investment has all but ceased. More Nepalis than ever are leaving the country to find jobs. British, American and Indian diplomats are pressing hard for the king to bring the political parties back into government. “There's a real risk of a failed state here,” said one. “The time to act is now.”

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Hong Kong

Beijing ducks

Sep 11th 2003 | HONG KONG
From The Economist print edition

Has China been taught to put pragmatism before pride?

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Reuters

Tung grinned, and had to bear it

THE decision by Hong Kong's chief executive, Tung Chee-hwa, on September 5th, to withdraw his government's controversial "Article 23" internal-security bill is a victory for the territory's people and another climb-down for its unfortunate leader. On July 1st, half a million Hong Kongers took to the streets to protest against the legislation, and Mr Tung has been on the back foot ever since.

But the real significance lies in what this U-turn says about his political masters in Beijing. Like any communist government, China's leaders love political symbolism. In 1997, they sent tanks across the border into Hong Kong just hours after the ceremony marking the handover of the former British colony. Now, the party that crushed Beijing's own Tiananmen Square protesters in 1989 has, highly uncharacteristically, backed down in the face of Hong Kong's docile marchers.

This triumph of expediency signals a more mature and possibly a more confident Chinese leadership. It also shows how rapidly the Chinese learn. As recently as early August, Zou Zhekai, deputy director of the Beijing government's liaison office in Hong Kong, controversially cited the Cultural Revolution in a speech about stability and thundered that the territory should not become "a city of turmoil". Barely a month later, China was quietly pressing Mr Tung to be more flexible.

China's leaders have apparently realised that trying to force through the security bill would hurt their supporters—particularly the pro-Beijing Democratic Alliance for the Betterment of Hong Kong (DAB)—in forthcoming district council elections and, more significantly, elections in September 2004 for the Legislative Council, the territory's pseudo-parliament. That, in turn, would make Hong Kong harder to control. "Beijing will do everything it can to help the DAB by shelving anything that would lose them votes," says Martin Lee, former leader of the opposition Democrats, who are now deprived of their most potent electoral weapon.

China also seems to be trying to win hearts and minds by boosting the territory's economy. It is no coincidence that since July there has been progress on a free-trade agreement between Hong Kong and China, that mainlanders are now allowed to visit as individual tourists and that Guangdong, a province surrounding Hong Kong, has been told to co-operate on such things as a new bridge that will improve the territory's transport links. China has presumably realised that Hong Kong is critical, not just economically, but because of what it does for China's own international reputation. If China is to have any hope of recovering Taiwan (see article), "one country, two systems" must be seen to work in Hong Kong. But that will require that the "Article 23" bill is not simply dusted off after a suitable interval.

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Taiwan

What's in a name?

Sep 11th 2003 | TAIPEI
From The Economist print edition

Taiwanese nationalism makes a comeback

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AP

Don't tell Beijing

SINCE Taiwan's Democratic Progressive Party (DPP)won the presidential election three years ago, it has found life in government too difficult—hedged in as it is by an economic slump and the desire to annoy neither enemies in Beijing nor friends in Washington and Tokyo—to pursue its traditional agenda of pushing for independence from China. But nascent nationalism has now returned to the fore. On September 6th, up to 150,000 people took to the streets—the largest demonstration Taipei has ever seen—to have government agencies, companies and private institutions which use China in their names replace it with Taiwan.

The instrument of this revived national conscience is not the DPP but a former president, Lee Teng-hui, once chairman of the Chinese Nationalist Party, or Kuomintang (KMT), which governed the island for half a century. Mr Lee, now alienated from his former party, is at the forefront of a new movement to change the island's official name from the Republic of China—a name it inherited along with the Chiang Kai-shek regime in 1949—to Taiwan.

Is there, perhaps, a punchier Taiwanese nationalism now in the offing, which could destabilise the situation in the region? The same week as the demonstration, the government started issuing new passports with the word “Taiwan” added to their covers, beneath the formal Republic of China designation. But it argues that this is a purely practical matter. Well-heeled Taiwanese are fed up with carrying passports so easily confused with those of the poverty-stricken economic migrants from across the Taiwan Strait. Despite sympathy for Mr Lee's campaign, the government has kept its distance. It has no intention of acquiescing in the demands of the former president and his supporters. In any case, for the most part it can't, lacking the weight in both the legislature and the National Assembly (which changes the constitution) to get its way against the KMT-led opposition.

On the other hand, the name-change campaign is seen by some as a convenient stratagem designed to mask the government's impotence over real policy in the run-up to a presidential election next March. But there is some substance to it. The pro-independence campaigners see the election as crucial; if they lose it, they fear the KMT will reunify with China along “one country, two systems” lines. In opposing the “Call Taiwan Taiwan” movement, the KMT and its unificationist allies fall back on rhetoric and imagery that are deeply offensive to large numbers of voters. They dislike, for instance, the attempt to resurrect the Chiang family personality cult: many Taiwanese recall Chiang Kai-shek as a murderous oppressor. The government may indeed have trouble defending its record. But if ex-President Lee—still Taiwan's wiliest political strategist—has his way, it is the KMT that will spend the campaign defending the indefensible.

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Cambodia and the WTO

Welcome to the club

Sep 11th 2003 | PHNOM PENH
From The Economist print edition

But Cambodia's WTO membership may not make much difference

Reuters

What's in it for her?

CAMBODIA is not normally considered a shining example of anything much, except perhaps the horrors of war. But at this week's summit in Cancún, it was set to become the first “heavily indebted poor country” to join the World Trade Organisation (WTO) since that group evolved from the General Agreement on Tariffs and Trade. Admirers of the WTO point to Cambodia's admission as proof that it can help poor countries as much as rich ones. The WTO's critics, on the other hand, consider Cambodia's accession a textbook case of how the rich rig global trading rules to exploit the poor.

Despite the fuss, however, Cambodia's entry into the WTO is unlikely to make much impact on its economy at all. The members of the WTO certainly imposed tougher medicine on Cambodia than they are prepared to stomach themselves. For example, Cambodia agreed to stop importing generic drugs after 2007, even though existing poor members have until 2016 to start honouring drug patents. Rich members also forced it to adopt a maximum agricultural tariff of 60%, even though America sometimes charges as much as 121%, and the European Union a formidable 252%. Similarly, Cambodia promised never to subsidise agriculture, even though America and Europe spend billions on farm subsidies every year.

But as unfair as all that sounds, it is not terribly damaging. If Cambodia finds itself in the throes of an AIDS epidemic in 2007, rich countries will doubtless agree to continued imports of generic drugs, if only because they fund much of Cambodia's health budget themselves. The high tariffs and expensive subsidies in America and Europe actually damage the local economies as well as foreign ones; there is no need for Cambodia to compound its problems by following suit. Anyway, Cambodia could not afford to subsidise agriculture even if it made sense to do so. Since 80% of Cambodians make a living by farming, it might sound natural to worry about lowering tariffs on agricultural imports. But Cambodia already has an effective tariff of zero, thanks to its long and porous borders and corrupt customs officials.

Corruption will also reduce the benefits of joining the WTO. Theoretically, Cambodian exports should now boom thanks to their new access to global markets. The government is hoping that WTO membership will allow Cambodia's garment trade, which accounts for some 80% of exports, to continue to grow even after the current system of international export quotas is abolished at the end of next year. But a recent World Bank study found that “undocumented administrative charges” (ie, bribes) enormously increase the cost of making clothes in Cambodia.

Indeed, Hun Sen, Cambodia's prime minister, seems to view WTO membership as more of a diplomatic achievement than an economic one. He devoted most of a recent speech on the subject to listing the important clubs the country has joined on his watch, and the grand meetings he has held. By that measure, Cambodia's accession is no more significant than its membership of the Multilateral Investment Guarantee Agency or its hosting of the ASEAN-India summit.

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Afghanistan

And there's another country

Sep 11th 2003 | MAZAR-I-SHARIF AND SHEBERGHAN
From The Economist print edition

It's better up north

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AT A villa in a back street of Sheberghan, a dusty northern Afghan town, a trio of American government geologists pick over charts on their laptops. Heavily armed British soldiers from the 2nd battalion, Royal Anglian Regiment, stand guard at the door. This is sensitive business: the geologists are looking for oil and gas. It will take them a year or so to make their findings public. Information from earlier surveys of northern Afghanistan have been lost or stolen, and Russia refuses to hand over key regional seismic line charts gathered by Soviet geologists in the 1970s. Still, the geologists are optimistic.

Northern Afghanistan is the unexplored southern edge of a big petroleum field, says Charles Baker of the United States Geological Survey. Preliminary calculations show about 142 billion cubic metres (5 trillion cubic feet) of proven oil and gas reserves and up to 765 billion cubic metres (27 trillion cubic feet) in unproven reserves. These are about a quarter of neighbouring Turkmenistan's reserves.

The trick for Kabul will be getting hold of the revenues. The government of Hamid Karzai is largely irrelevant in the north. Power is instead delicately balanced between two warlords, Rashid Dostum and Atta Mohammed, several smaller factions—notably the Shia Hazaras—and a large number of floating commanders whose loyalties shift with self-interest. Of the northern provinces, only the governor of Faryab prefers Kabul—a centrally administered Afghanistan, that is—to the warlords. Messrs Dostum's and Atta's frequent pronouncements on national unity are Orwellian doublethink. Mr Atta, whose beard is clipped back these days, likes to think he controls Mazar-i-Sharif itself and a little of the land east towards Kunduz. He has perhaps 10,000 men (he says 15,000), and Mr Dostum 25,000 or so. But as a Tajik, he retains useful ties to Ismail Khan, the warlord of the west, and to the Tajik-dominated defence ministry in Kabul. He says he wants to demilitarise Mazar-i-Sharif, but only if Mr Dostum goes first. Mr Dostum, an Uzbek, has changed sides many times. During the Soviet occupation, he was a union boss in the gas fields. He ended up fighting with the Northern Alliance and was even briefly allied to the now renegade Gulbuddin Hikmatyar, the most radical of the *mujahideen*.

Mr Dostum controls the areas west and north of Mazar-i-Sharif from his flamingo-coloured palace in Sheberghan. He does good business with Turkmenistan and controls the border with Uzbekistan. His men do not need papers to cross over into Termez, where his portrait is widely displayed. He brings in men and arms from Uzbekistan, says Mr Atta, who also reckons Mr Dostum deals with the Uzbek and Russian

mafias. Others say the ties run all the way to the Uzbek president, Islam Karimov. Certainly, Mr Dostum's bodyguard includes special-forces officers from Uzbekistan's capital, Tashkent.

Set against this muscle, the British army's provincial reconstruction team (PRT) in Mazar-i-Sharif looks weak. It has just 72 men, many of them pinned down guarding a discreet encampment at the edge of town. British and American diplomats are seconded to the unit along with aid officers with money to spend on worthy projects. Humanitarian types in Mazar-i-Sharif are unhappy with the PRT, and many refuse to deal with it on principle: they don't want to see aid work associated with the coalition forces, as they fear this lapse from neutrality could endanger them and their colleagues. The British commanding officer, Colonel Dickie Davis of the Royal Engineers, is sympathetic. His men will not replicate the humanitarian effort, he emphasises. Instead they will concentrate on efforts to reduce tension between factions and training the local police. All the better, says the UN. It is supportive of the PRT concept in the absence of a larger expansion of foreign troops outside Kabul, as long as the British stick to gathering guns and guarding geologists. Afghans just want reconstruction, in the north as elsewhere.

The PRT is not equipped for that, but it has had some success since arriving in June. Its own investigations have shown that widely reported factional fighting between Messrs Dostum and Atta did not happen. We visited the sites, says Colonel Davis. At most, his soldiers found that villagers had fired pot-shots at each other from a range of a kilometre. There were no mass killings. And the PRT has lent weight to a weekly meeting in which all the factions can peacefully air their grievances under the auspices of the UN. It sends out week-long patrols deep into the Texas-sized north. The planned arrival of a Danish contingent in the autumn should allow for outposts to be set up. But the unit looks dangerously stretched. If real fighting breaks out, its main defence will be its ability to call in American air strikes.

At any rate, the north is a counterweight to Afghanistan's troubled south. It is doing well. There is no insurgency. Talk of infiltration by neo-Taliban from the south is unfounded. Traders are optimistic and importing more goods from China and Iran. This year saw a record wheat harvest. Moroccan locusts threatening the crop were turned back and eradicated by a co-ordinated corps of a thousand or so volunteers. All the more reason then for Kabul and international agencies to act carefully, in a way which binds north to south without destabilising it. The worry is that heavy-handedness will push the north further into the Central Asian orbit. It already feels like another country.

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Collapse of the road map (1)

Progressing to a bloody dead end

Sep 11th 2003 | EAST JERUSALEM
From The Economist print edition

AFP

An awful inevitability led to the latest outrage. The Palestinians hope for an outside intervention that never comes. The Israelis (see article) make their own plans

Get article background

FOUR months after it was inaugurated, the American-backed road map has collapsed in blood. On September 6th, the Palestinian prime minister, Mahmoud Abbas, resigned. Three hours later Israel tried to kill Sheikh Ahmed Yassin, the founder and spiritual leader of Hamas, and other leaders of the militant Islamist movement. Three days later Hamas exacted revenge; its suicide bombers killed 15 Israelis, some of them soldiers, in two separate attacks in Tel Aviv and Jerusalem. Israel's first response was to attack the home of Mahmoud Zahar, a Hamas political leader and spokesman, killing his son. The horrors will, without doubt, continue.

Mr Abbas had been America's man. His appointment as prime minister in April was seen as the key to new American “engagement” in the conflict, based on diluting the powers of Yasser Arafat, the Palestinians' elected president, reforming the Palestinian Authority (PA), and implementing the road map. Mr Abbas saw the unilateral Palestinian ceasefire, in which all the militant factions committed themselves not to attack Israeli civilians, as the key to his efforts to steer his people away from violence and back to negotiations.

The ceasefire lasted seven weeks. There was not an absolute end to Palestinian violence, but there was a genuine decline. It finished on August 19th when a Hamas suicide bomber killed 22 Israelis on a bus in Jerusalem. Since then, Israel has killed 15 Hamas men, plus six innocent bystanders, either by assassination in Gaza or by military assault in the West Bank.

Why has the road diverged so bloodily from the map? In an address to the Palestinian parliament, Mr Abbas put some of the blame on himself and his bad relations with Mr Arafat. Never good, these became venomous. Mr Arafat saw any attempt by the prime minister to gain a degree of independence in decision-making as part of an Israeli-American conspiracy to unseat him. He refused to transfer control of the PA's various police forces to Mr Abbas, as was called for in the road map. And he quietly incited some of his more militant loyalists in Fatah to denounce Mr Abbas's “American” regime.

But, said Mr Abbas, the fundamental cause of his failure was “Israel's unwillingness to implement its commitments under the road map”. This is certainly what lost him Palestinian public opinion. During the truce, Israel withdrew its tanks a few score metres from Bethlehem, opened a few roads in Gaza and removed five roadblocks out of 220 in the West Bank. It did little else to loosen the “closure” that isolates each Palestinian village from its neighbour, leaves one out of two Palestinians without a job, and nearly two out of three in poverty.

Nor did Israel freeze settlement construction, as called for in the road map. Instead the so-called “security fence” that has already swallowed large chunks of Palestinian farmland in the northern West Bank has been extended to include parts of occupied East Jerusalem. “Abu Mazen [Mr Abbas's usual name] can do nothing for us here,” shrugged a Palestinian from the East Jerusalem village of Abu Dis, standing next to a new concrete wall that separates him from his lands, family and business on the “Israeli side” of Jerusalem.

Mr Abbas also blamed an American administration that “did not exert sufficient influence on Israel to implement the road map”. As a result, support from the various Palestinian factions, including his own Fatah movement, dribbled away. Mr Abbas had sold them the road map in the hope that an end to Palestinian violence would bring American pressure on Israel to end its current occupation policies.

That pressure never came. Mr Abbas, it appeared, carried no more clout with the White House than had the “irrelevant” Mr Arafat. Last week, the prime minister threatened a parliamentary vote of confidence in a last throw to rescue his government. He was told he would lose.

Will his replacement fare better? Mr Arafat moved swiftly to install Ahmed Qurei, the speaker of parliament who is better known as Abu Ala, as his successor. Like Mr Abbas, Mr Qurei is a moderate and one of the architects of the Oslo accords. He is opposed to the “armed *intifada*” and committed to the road map. Unlike Mr Abbas, he enjoys the trust of his leader, at least for now. He accepted the post, but said he wanted guarantees that America and Europe would intervene to end Israel's violence against the Palestinians, and to see that the road map was implemented. He insisted Israel lift the siege on Mr Arafat since, without him, “no prime minister will succeed”. And he proposed a new ceasefire, but one that would include Israel as well as the Palestinian factions.

He is unlikely to get far. Israel views another “temporary Palestinian ceasefire” as just another ruse to evade the PA's responsibility to take on Hamas and Islamic Jihad, root and branch. Stunned by the departure of Mr Abbas and cool to his successor, the Americans, apparently, feel the same. The European Union is warmer to Mr Qurei, but armed with its recent decision to designate Hamas's political wing (as well as its military wing) a “terrorist organisation”, it too is placing the onus on him and the PA to act, and act first. But unless Mr Qurei can deliver some substantial return, Palestinian public opinion, including opinion in Fatah and the security services, is unlikely to tolerate a vigorous move against the Islamists.

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Collapse of the road map (2)

Apocalypse, soon

Sep 11th 2003 | JERUSALEM
From The Economist print edition

The Israelis think of revenge, perhaps against Yasser Arafat

Get article background

IN ISRAELI government circles the debate after the suicide bombs in Jerusalem and Tel Aviv was not about negotiating afresh with the new Palestinian prime minister, Ahmed Qurei. It was rather about removing Yasser Arafat, re-invading the Gaza strip or even reoccupying all of the Palestinian territories and forcibly dismantling the Palestinian Authority.

Ariel Sharon has resisted such apocalyptic advice before. But the proponents, who include some of his senior ministers, apparently concluded, after the bid to kill Sheikh Ahmed Yassin last weekend, that past inhibitions may no longer be operative. When Mahmoud Abbas's brief tenure as Palestinian prime minister imploded, the Americans signalled that Mr Arafat was to be left alone. But aides to Mr Sharon later claimed that they detected a possible softening of the American fiat.

Cabinet members took their views to the public. The foreign minister, Silvan Shalom, said there would never be diplomatic progress so long as Mr Arafat was in the arena. The defence minister, Shaul Mofaz, agreed it would be better if he were gone. Ehud Olmert, the deputy prime minister, suggested that deporting Mr Arafat would be counter-productive, but that Israel could cut all communications to his Ramallah office, turning “him into a prisoner in solitary confinement”.

Most of the ministers blame Mr Arafat personally for the terrorist attacks, and, though no hard evidence has been adduced to substantiate that claim, most of the public accepts it. In an opinion poll published in *Haaretz*, an Israeli newspaper, on September 10th, 18% said that Mr Arafat should be assassinated, 28% that he should be deported and 27% that his isolation should be intensified. The same poll, taken before the latest suicide bombings in Jerusalem and Tel Aviv on September 9th, had nearly 70% approving of the attempted killing of Sheikh Yassin, and 60% urging the army to try again.

Israel's attempt, on September 10th, to kill Mahmoud Zahar, the Hamas spokesman, signalled clearly that Mr Sharon's orders to the army, in the wake of the August 19th bombing in Jerusalem, to hunt down the entire Hamas leadership are still in force, despite the costly reprisals. Mr Sharon, on his cut-short visit to Delhi—the Indians have become big customers for Israeli military technology—said that Mr Abbas's downfall showed how cautious Israel must be in its dealings with the Palestinians. As for Mr Qurei, he would meet with him, Mr Sharon said, only if he carried out all of the Palestinians' commitments under the road map.

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Morocco's Islamists

Fighting not to win

Sep 11th 2003 | RABAT
From The Economist print edition

A year ago, Morocco's Islamist party did well. This year it doesn't want to

THE idea, usually, is to win elections. But the Islamists of Morocco's Justice and Development Party (PJD) are scared of their own strength. At the parliamentary elections a year ago, the party emerged as the country's main opposition force. Now, with 14.6m voters being urged to turn out on September 12th to elect local councils, the PJD is fielding candidates for only half the seats in the towns where it is strongest.

Party leaders claim that if the PJD went all-out for victory in Casablanca, Morocco's largest city, it would easily win control of the new city council. But the party's attempts to shrug off its “Islamist” label have been unconvincing, and its vice-president, Saeddine al-Othmani, dreads seeing headlines blaring out: “Islamists take Casablanca!” Such a reaction could be particularly alarming after last May's suicide bombings in the city by fringe Islamist radicals.

In fact, although PJD leaders are reluctant to acknowledge it, their decision not to bid for the control of such cities as Rabat and Fez as well as Casablanca was in response to pressure from the authorities. In Tangiers, where local activists rejected the self-imposed restraint, arguing that elections are meant for winning, the party will present no candidates at all.

A year ago the PJD won around 13% of the vote. This was hardly a seismic shift, though some local commentators maintained that the Islamist party's real showing was stronger. But the Socialist Union of Popular Forces, and the centre-right Istiqlal Party managed only slightly higher percentages, and then went on to form a coalition government. The profusion of small parties has continued into the local elections, with 26 competing.

Some parties are more real than others, and councillors not infrequently switch parties, depending on which way the cash is flowing. In July, King Mohammed blamed local corruption for the growth of shanty-towns, and urged political parties to smarten up their acts. Although the shades of Algeria, where an Islamist party's victory at a general election, after gaining ground at local government level, led to a savage civil war, are persuading the PJD to hold back in the cities, the party still hopes that it may get the chance to show what it can do in smaller municipalities.

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Nigeria's space programme

Per Abuja ad astra

Sep 11th 2003 | LAGOS
From The Economist print edition

A boon or a boondoggle?

LATER this month, Nigeria's first satellite, a box of gadgets the size of a washing machine, will be launched into space from Siberia. It was built by a British firm for the Nigerian government, and will cost $13m. Such a sum would barely buy you a sandwich on the international space station, but to Nigerians, it sounds a lot, and many are wondering if the money is being wisely spent.

The satellite is the first step in a rather ambitious space programme. The president, Olusegun Obasanjo, wants to launch a second, for television and telephone communications, and hopes eventually to see Nigerian engineers building a satellite in Nigeria. All this, says the government, will “enhance the quality of life of people” and alleviate poverty.

How, exactly? Well, the first satellite will take photos of Nigeria and beam them back home. This will, indeed, have uses. It will help investors to pinpoint likely mineral deposits, and officials to map flood plains suitable for rice cultivation. It will allow a more accurate estimate of Nigeria's population (censuses are usually marred by violence and fibbing, because states with more people get more money from the central government). It will speed disaster relief. If it had been available when the Kaduna river burst its banks last week, driving 5,000 people from their homes, the government could swiftly have identified the worst-affected areas. And so on.

The programme involves intelligent cooperation with other countries. Because satellites must orbit, they cannot easily hover above one country. So Nigeria has entered a timeshare deal with six other countries. Each is to provide a satellite, which will form a constellation around the earth. When its own satellite is out of sight, Nigeria can download pictures from one of the others. This is a relatively cheap way of obtaining 24-hour surveillance.

But not the cheapest. Space agency officials admit that they could buy data from existing satellite operators for less. They hope to recoup money by selling images to corporations or other African countries, but sceptics scent a loss-making prestige project, of which Nigeria has endured several in the past. The government says the satellite will help Nigeria “leap-frog” from its present state (awful roads, telephones that rarely work), into the space age. But Sam Chukwujekwu, an engineering professor, thinks the money would be better spent on education. “You can't leap-frog from a mud foundation,” he says.

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South Africa tries peacekeeping

Trying on blue berets

Sep 11th 2003 | KINDU
From The Economist print edition

Benign ambitions, limited reach

THABO MBEKI, South Africa's president, often talks of his desire “to ensure that the entirety of our continent enjoys peace, stability and democracy”. He puts his army where his mouth is, too. There is probably no tougher task in Africa than bringing peace to Congo, which has been gutted by civil war since 1998, but Mr Mbeki is determined to help. In May, he sent 1,400 South African troops to join the hard-pressed UN peacekeepers there.

Projecting force to such a remote and roadless spot is proving, unsurprisingly, difficult. After four months, 80 shipping containers of computers, armoured cars and other materiel have still not arrived. Mechanics grumble that they have no toolboxes. Lacking air transport, hundreds of South African soldiers were left sweating idly for months in Kindu, the dusty riverside town in eastern Congo which serves as their base .

AFP

Lonely in Burundi

Some have now been deployed to forward bases, and the UN force as a whole has won a tougher mandate, which allows its soldiers to patrol more aggressively. But not thoroughly: the South Africans have only six armoured cars to cover a thickly-forested area bigger than South Dakota. They had no helicopters, either, until India was recently persuaded to lend two.

Despite the hardships, the South Africans have notched up some successes. Their presence in Kindu has been sufficiently reassuring to coax 200,000 townspeople, who had fled into the bush, to return home. The South Africans have also disarmed a few members of the Mai-Mai, an unruly militia, set up a ferry service and a mobile telephone network in Kindu, and ensured that a local market has reopened. All this has made them popular. People in Kindu wave and grin as they pass.

But the South Africans' relations with the UN in Congo are tetchy. Last week, the head of South Africa's armed forces, Siphiwe Nyanda, was trying to visit his men in the field but was stranded for a night in Goma, a town on the Rwandan border, after two UN helicopter pilots disappeared to a market to buy a sack of potatoes, and failed to return. The South African commander in Congo complains that UN officers do not even bother to reply to requests for information, let alone for equipment.

South African soldiers are stretched. Some 3,000 serve across Africa, up from almost none three years ago. In Burundi, Congo's tiny neighbour, two South African battalions help protect politicians at risk of assassination. This mission falls under the authority of the African Union (AU), rather than the UN. The AU has failed to persuade any other African country to send peacekeepers, though four have promised to, so the South Africans struggle on alone. Earlier this year, they could do nothing to stop a rebel assault on Bujumbura, the lakeside capital. Two South African boats now patrolling Lake Tanganyika, between Congo and Burundi, may help, but resources are thinly spread.

It is less than a decade since South Africa avoided its own civil war. Since apartheid ended, the country has had to knit opposing military factions together into one army. To save money, that army has since shrunk by half, to about 70,000 personnel. Military spending, which was 4% of GDP in 1990, has fallen sharply: it will be less than 1.6% next year.

As strength has dwindled, military commitments have grown. There is talk of sending the navy to Liberia. South African observers work on the border between fractious Eritrea and Ethiopia, and a planned AU standing army will rely heavily on South African muscle, as will a new southern African defence pact.

Soldiers who serve abroad are given extra allowances. Other costs are high, too. Most supplies, from meat to paper clips, must be flown, sometimes thousands of kilometres, from South Africa. Soldiers infected with HIV (as nearly a quarter of them are) are not allowed to serve abroad, but some escape screening. Fitness is a problem. South African infantrymen are old (on average aged over 32, a decade older than in most armies), which means they are more likely to be injured, tired or unwilling to travel far from home.

These problems are not insurmountable. By 2009, several thousand troops will be released from domestic police duties, freeing them for other tasks. But on September 9th, South Africa's defence minister, Mosiuoa Lekota, said that military spending was too low, and would probably have to be reviewed.

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Award: James Astill

Sep 11th 2003
From The Economist print edition

James Astill, our roving Africa correspondent, has won the annual Merlin media award for his coverage of the war in Congo for the *Guardian* and *The Economist*.

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The murder of Sweden's foreign minister

A Nordic and European tragedy

Sep 11th 2003
From The Economist print edition

AFP

The murder of Anna Lindh, Sweden's foreign minister, has shaken the nation but may not (see article) make Swedes embrace Europe's single currency

ANNA LINDH, the Swedish foreign minister who died on September 11th after being stabbed the day before in a Swedish department store by an assailant apparently unknown to her, typified many of the good qualities associated with her country: candour, high-mindedness, a sense of justice and equality, and pragmatism. As foreign minister, she helped to push Sweden out of its traditional neutrality and towards a more active engagement in the wider world, particularly within the European Union.

Hence, to a large degree, her enthusiasm for Sweden to join the EU, which it did in 1995, and, more recently, to join Europe's single currency. She had been Sweden's most prominent promoter of the euro, matching the prime minister, Goran Persson. Her handsome face smiled out of thousands of posters festooned across the country. She was widely considered to be the pro-euro team's best asset. Many expected her to be the next prime minister.

In the first rush of national gloom and introspection following Mrs Lindh's death, some politicians suggested that the referendum should be postponed. Immediately after the attack, Mr Persson said that the yes side would stop campaigning, out of respect for the foreign minister, whether or not the referendum went ahead on schedule. But, with leaders of the opposition parties (including those who support the euro) urging that the vote should be held, the prime minister agreed that it should go ahead.

Inevitably, there were calls for Sweden's politicians to have tighter security. Inevitably, too, there were glum reminders of the murder in 1986 of the then prime minister, Olof Palme, after he left a Stockholm cinema; his killer has never been found. As *The Economist* went to press, Mrs Lindh's killer had not been caught. An onlooker described him merely as a tall man in camouflage fatigues.

As things stand, only the prime minister and King Carl XVI Gustaf have regular bodyguards. Ordinary citizens in the capital often bump into government ministers in the street or in the underground railway and enjoy bearding them about issues of the day. Despite the tragedy that befell Mrs Lindh, the Swedish public and politicians will be loth to dispense altogether with such openness, a treasured symbol of the country's egalitarian tradition.

Mrs Lindh's own career embodied much that has happened to Sweden over the past decade or so. Aged 46 and trained as a lawyer, she was always active in politics: she had been head of the Social Democrats' youth movement. Starting in local politics in Stockholm, she entered parliament in 1982 and soon achieved promotion, becoming environment minister in 1994 and foreign minister in 1998.

In comparison with older-guard members of her party, she was notably less ideological, and keen to move Sweden from its neutralist moral high ground, enthusing, for instance, about the country's recent readiness to co-operate with NATO in defence matters. She was also an ardent advocate of bringing the Baltic states both into NATO and into the EU.

At the same time, however, while urging solidarity with the United States after the felling of New York's Twin Towers two years ago, she was typically forthright in condemning the Americans for failing to wait for a UN Security Council resolution this spring before going to war in Iraq, describing President George Bush as a “lone ranger”. But, by virtue of her famed charm and intelligence, she kept a good rapport with, among others, Colin Powell, the American secretary of state, who once reportedly said there were three good things about Sweden: “Abba, Volvos and Anna Lindh”. (“Am I only third?” she is said to have quipped back.) More recently, she had been rude about Italy's prime minister, Silvio Berlusconi, questioning Italy's suitability under his leadership to hold the EU's current six-month presidency.

In general, however, Mrs Lindh was at pains to pull Sweden more actively into the affairs of Europe, shifting the emphasis away from her country's focus on third-world matters (especially in Africa) while sustaining its position as one of the highest per capita donors to poor countries.

Yet, despite her enthusiasm for the euro, by the standards of the EU's founding core of countries, she did not uncritically favour ever closer political integration. She had become probably the most influential of the three Nordic EU countries' foreign ministers. In particular she demanded greater openness in EU affairs, in keeping with her own country's tradition. For that reason alone, she will be sorely missed on the international stage.

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Sweden and the euro

Why the voters are reluctant

Sep 11th 2003
From The Economist print edition

Sweden seems far from keen to embrace Europe's new currency

Get article background

THE murder of Anna Lindh (see article) has made the outcome of Sweden's approaching referendum on the euro harder to predict. The popular foreign minister was keenly in favour of adopting Europe's new currency, and her death may arouse sympathy votes on September 14th. The most recent polls, conducted before she died, had given the noes a lead of at least nine percentage points.

The government and its pro-euro business allies had thrown everything—including far more money than the other side, and, lately, a measure of political deviousness—into changing voters' minds. The yes-campaigners had been hoping that enough waverers would decide in the end to follow their leaders' advice, much as in 1994, when the country voted by a narrow margin and only after a great show of reluctance to join the European Union.

A no vote would be a blow for opponents of euro membership in the two other EU countries still outside the system: Britain, where opinion remains pretty firmly against, and Denmark, where euro supporters are now in the majority. Such wider implications aside, however, would a decision to join really be in Sweden's economic interests?

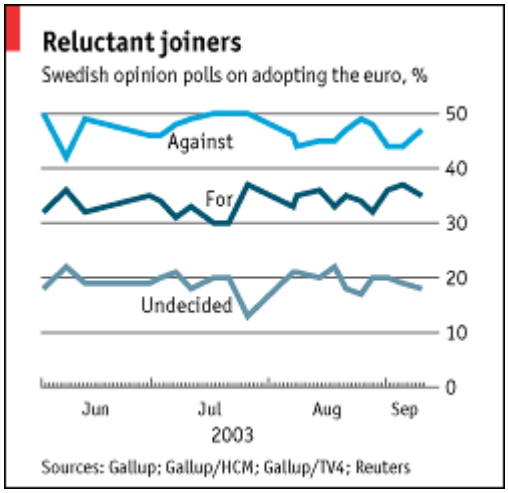
One can see why voters doubt it. Sweden's central bank, like Britain's, has conducted its monetary policy to good effect in recent years. Inflation is subdued; unemployment, at 5.4%, is much lower than the euro area's average of nearly 9%; and growth in output, though sluggish this year, looks all right by European standards. The Economist Intelligence Unit, a sister company of *The Economist*, predicts that Sweden's GDP will grow by 1.3% in 2003, rising to 2.3% in 2004, against growth of 0.6% rising to 1.8% in the euro area.

Sceptics allege that the euro area's poor performance is not just down to bad luck. Economic policy in the euro area is a mess. The European Central Bank has been widely criticised for keeping interest rates too high for too long, and for adopting an unduly severe target for inflation: a ceiling of 2%, to be contrasted with the Swedish central bank's milder target of 2% plus or minus 1%. At the same time, euro-area co-operation on fiscal policy is in disarray, with the rules for budget deficits laid down in the stability and growth pact criticised or flouted by France, Germany and others. Since Sweden appears to conduct economic policy more intelligently than does the euro area, and since the results are currently superior, why switch?

Goran Persson, the prime minister, and his allies emphasise the long-term costs of staying out: less influence for Sweden in the EU, and less inward investment. Whether Sweden, with or without the euro, can expect to exert much influence in the Union seems doubtful, but fears about investment might prove well-founded.

Sweden competes successfully in the market for global capital. Measured by trade and by flows of investment, it is one of the most open economies in the world. No doubt it would continue to do well outside the euro area, but the question is whether it would not do even better as part of the single-currency zone. With time, and assuming that the EU will eventually repair its defective euro arrangements, the price for retaining the krona is likely to be some net loss of investment due to exchange-rate uncertainty.

This cost must be set against the benefit of retaining control over interest rates. Sweden's labour market is not the most flexible in the EU: the labour force is highly unionised, wage-bargaining is relatively centralised, and the country has an enormous public sector. This, it might be argued, strengthens the case for an independent monetary policy. On the other hand, the smaller and more open the economy, the greater the benefits of exchange-rate fixity; and Sweden is small and very open. Whatever the precise balance may be, it certainly lies more in favour of euro membership for Sweden (and for Denmark) than it does for Britain.



The pragmatic Swedes, one might suppose, would weigh all this and do what Britain has done: wait and see. Say no to the euro in 2003, while the euro area is struggling and its policy arrangements are in question, but reserve the option to say yes later, when the system is performing better or if investment starts to droop. This thought seems to have occurred to the prime minister. In what could be a case of pragmatism, or just brazen dishonesty, he has recast the terms of the referendum.

AFP

An economic hazard

The question on the ballot seems admirably simple: “Do you think Sweden should introduce the euro as its currency?” The prime minister has made it more complicated. He argues that voting yes does not oblige Sweden to introduce the currency straight away; it merely gives the government authority to do so if conditions seem right; whereas saying no, the prime minister has deemed, is to rule out any such possibility for ten years. This seems an abuse of the referendum, and the prime minister is being criticised for it. Redefining yes to mean “yes or unsure” may nonetheless prove to have been a clever tactic. But if the government loses the vote despite such cunning manoeuvres, the defeat will be all the more telling.

The real question

As in Britain, opposition to the euro in Sweden reflects discomfort with the broader thrust of European political integration as much as, or more than, it expresses doubts about the single currency itself. Many Swedes worry that deeper integration will eventually threaten the Swedish welfare state. Winning support for adoption of the euro might have been easier if the two issues had been kept separate—if the government had promised a further referendum on the new European constitution, for example. That is where voters' reservations about deeper integration are very much to the point.

The prime minister has neither promised a further referendum on the constitution nor ruled one out. Whatever the outcome on September 14th, after the struggle, embarrassment and, now, tragedy of the past few months, Mr Persson may feel that asking citizens what they think is best avoided.

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Germany's president

No Frau after Rau

Sep 11th 2003 | BERLIN
From The Economist print edition

Germany's next federal president is unlikely to be a woman

TIME for a woman. Such has been the reaction across the political spectrum since Johannes Rau, Germany's president, said this week that he would not seek re-election when his term ends next June. A female head of state would continue a trend. Women now make up almost one-third of the federal parliament, against only one-fifth ten years ago. And almost half of Germany's ministers are women.

Quotas are one reason. Except for the Free Democrats, Germany's liberals, all the main political parties now decree that women must have a certain percentage of jobs. The Christian Democrats set the level at 30%, albeit only in the first round of party elections, the Social Democrats at 40% and the Greens at a half.

AP

Merkel wants more power than a president

But most positions of real power—in parliament, government or parties—are still in male hands. Within the federal cabinet, for instance, men run all the "hard" ministries such as foreign affairs, finance and defence, while women have farming, family affairs and health.

Besides, there are other reasons why, this time, a woman is unlikely to become president. Any candidate, male or female, put forward by the Social Democrats has no chance, since the governing "red-Green" coalition lacks a majority in the federal convention, which consists of the members of both federal houses of parliament and an equal number elected by Germany's 16 state parliaments. But the Social Democrats have another reason for calling for a female president: to make life more awkward for Angela Merkel, the Christian Democrats' chairman.

If it were agreed that a woman should be head of state, she would seem to be the right's obvious choice. Not in her view. She would rather her party's presidential candidate were a man, since she wants to become chancellor in 2006. Not surprisingly, quite a few politicians on the right like the idea of Mrs Merkel as president, since that would clear the way for them to have a crack at becoming chancellor.

If Mrs Merkel has her way, the right's front-runners would probably be Wolfgang Schäuble, a Christian Democrat, and Edmund Stoiber, if he feels ready for a higher calling after his Christian Social Union, the Christian Democrats' sister party in Bavaria, wins state elections later this month, as is almost certain.

Mrs Merkel's views, which some female politicians have deplored, are entirely reasonable. The job of president is largely ceremonial, though he or she can make some impact by appealing to the nation's conscience—with speeches, for instance, on immigration, biotechnology or the Holocaust, for which Mr Rau memorably apologised in Israel. If politicians are really serious about the *Frauenfrage*, the question of women in politics, they should open the way for a female chancellor. Whether Mrs Merkel is the right person for that job is for the voters to decide.

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France's heatwave

Why did so many die?

Sep 11th 2003 | LE MANS
From The Economist print edition

Everyone blames everyone else for France's heatwave calamity

WAS the death toll 3,000? Or 11,000? Or 15,000? Nearly a month after last month's heatwave, when temperatures topped 40° Celsius (104° Fahrenheit), it is still unclear how many died. Having initially conceded only 3,000 victims, the government now admits that 11,435 more people than usual died during the first two weeks of August. The Pompes Funèbres Générales, the country's biggest funeral group, reckons the excess figure for the whole month was over 15,000.

It is hard to know how many deaths were caused by the heat. The estimates are based on comparing the number of deaths registered this August with those in the same month in previous years. The toll this time was the highest since records began in 1946. At least 80% of the dead were over 75, according to a government agency's sample study. If the heat didn't kill them, then what did?

Ever since the grim pictures of unclaimed bodies being retrieved from apartment buildings and stacked up in refrigerated warehouses began to appear on television screens, the country has been agonising about whose fault this calamity was. Some doctors blame the 35-hour-week and consequent lack of hospital staff. The official report, out this week, neatly shares the blame: hospitals closed too many wards in August; too many family doctors went off on holiday; government departments were poorly co-ordinated; the health-surveillance institute failed to give an early warning. In short, everybody was to blame—except, that is, the government.

Jean-Pierre Raffarin, the prime minister, has tried to deflect criticism by dwelling on the neglect of French families and bemoaning “the indifference of fellow human beings, of relatives, of neighbours, to curtains that are drawn.”

But the government is disingenuous. Many frail and elderly people would probably have died even if the government had taken the earliest warnings more seriously. But it did not. On August 11th, the health minister, Jean-François Mattei, was still on holiday, being interviewed in shirt-sleeves in his garden. The prime minister did not return to Paris until the 14th. And President Jacques Chirac, on holiday in Canada, jetted home only on the 20th.

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France's prime minister

Ambitious

Sep 11th 2003 | PARIS
From The Economist print edition

Jean-Pierre Raffarin is embarking on a bold programme

Get article background

APPOINTED for his consensual style and convivial image, Jean-Pierre Raffarin increasingly looks like a prime minister determined to stamp his own mark. Since the return from the summer break, and seemingly unflapped by the scandal over the shocking number of deaths from last month's heatwave (see article), he has announced a series of measures set to exasperate one quarter or another, whether the European Commission in Brussels, his government, or even the French electorate.

First, Mr Raffarin stated that France would breach the 3% budget-deficit limit imposed by the European Union's stability pact; France may go to 4% in 2003, making it the worst offender in the euro zone. It could well stay in breach, added his budget minister, Alain Lambert, until 2006. The casual abandon with which Mr Raffarin is flouting the rules is infuriating the commission, already at loggerheads with the French government over its summer bail-out of Alstom, an engineering group. “My duty”, the prime minister blithely told TF1, a television station, “is not to solve mathematical problems to please a particular office or country.”

Then the prime minister jauntily declared that he would go ahead with a 3% income-tax cut next year, despite the reservations of his own finance minister, Francis Mer. The cautious former steel boss had reportedly wanted to limit the cut to 1%. Moreover, this promised tax cut, to go with an increased tax credit for low earners, will not be balanced in the short run by spending cuts. The 2004 budget, to be unveiled later this month, will only freeze, not cut, public spending. Given that the French economy is perilously close to recession—GDP shrank by 0.3% in the second quarter of 2003, after growing by a tiny 0.2% in the first—the public finances look ever more shambolic. Is there any logic behind this apparent recklessness?

In the short run, Mr Raffarin simply wants to fire up the economy with a fiscal boost. But he may also have a more ambitious plan: to try to reinvigorate France's “old Europe” economy with broader reforms. As a former businessman, and as a member of the market-oriented Liberal Democracy branch of the ruling party, Mr Raffarin believes in the need both to unleash business and small enterprise, and to encourage French workers to stay at their desks. Hence, in part, a tax cut that will mainly benefit the well-paid: half the tax reduction, by one calculation, will end up in the pockets of the 6% who already earn most.

Certainly, Mr Raffarin's government has a sense of momentum behind it. He and his colleagues, such as Nicolas Sarkozy, his interior minister, constantly refer to it as a “government of action”. Haunted by the worrying electoral score (18%) for Jean-Marie Le Pen, leader of the far-right National Front, in the presidential poll of 2002, the government thinks it must make changes, and be seen to be doing so, if it is to persuade voters that mainstream political parties do not simply sit smugly on a gravy train between elections. It also has the political weight to push through reform, if the will exists: the president and the government are both from the centre-right, and the government has a hefty majority in parliament. “Opposition to change”, Mr Raffarin told *Le Figaro* last week, “is a dead end for France.”

Already, Mr Raffarin has on his list a string of structural reforms, and has achieved one of the trickiest of them, pension reform. As part of what he calls “Agenda 2006”, with a wry nod to Chancellor Gerhard Schröder's “Agenda 2010” for Germany, the French prime minister promises to revamp job training, restructure bankruptcy law, reform the health-insurance system to curb ever-rising costs, and reorganise the school system. This latter pair of reforms will be preceded by a “national debate”, to try to tease out and neutralise opposition ahead of time.

Moreover, Mr Raffarin is not afraid of taking unpopular measures, as his refusal to budge on pension reform despite paralysing strikes earlier this summer shows. He has even braved French indignation by floating the idea of robbing workers of one of their sacred public holidays each year, in order to help finance health care for the elderly, the chief victims of the recent heatwave. As it happens, the renegotiation of work contracts to allow this to happen could also open the way to making the 35-hour working week more flexible.

Yet Mr Raffarin is on a treacherous path. For one thing, he badly needs an economic revival to help plug the deficit; even the government is forecasting growth of only 1.7% next year. For another, he must show that he can continue to face down street protests once his next round of reforms, particularly over health and education, gets under way.

Already, his popularity is on the slide. The prime minister may be busy stamping his authority on the government, in small ways as well as big: he has just, for instance, forbidden two junior ministers from going ahead with their planned appearance on a political reality-television show to save them from ridicule. Steering the French back to economic reality, though, will be quite a different matter.

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Love in Italy

Telephonic skills

Sep 11th 2003 | ROME
From The Economist print edition

Is Italy's love affair with the mobile telephone starting to wane?

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FEW nations embraced the mobile phone with quite such alacrity. Not normally in the van of technological progress, the Italians so love chatting that they nevertheless shot to near the top of international tables of comparative statistics on mobile-phone use. This year, the rate of subscriptions as a proportion of the population may exceed 90%. Italians of all classes and ages own a *telfonino*. A recent survey found that more than half of children aged between nine and ten have one.

But this summer a note of diffidence has crept in. Mobiles may be great for chatting but they can get in the way of something else that in Italy is almost as popular. According to the Rome-based Miriam Tomponzi detective agency, 87% of cases of marital infidelity established by its sleuths in Europe in the past year came to light because of tell-tale traces left on mobile telephones. Slightly less than half the cheated parties found their suspicions confirmed by delving into the call registers of their spouse or partner's mobile. In the remaining cases, proof was provided by a text message.

The dangers of stored text messages were brought home to Italians this summer by a much-reported bust-up between Deborah Caprioglio, an actress, and her partner of five years, Geppy Gleijeses, a director. The lady told the weekly *Gente* that she walked out after discovering an exchange of amorous text messages between Mr Gleijeses and a former Big Brother starlet.

Then, in July, the sober daily, *Corriere della Sera*, ran a front-page article entitled “Telefonino and hidden loves”, alerting readers to the added dangers of taking your mobile on holiday. “The holidays are an ever harder time for the many people trying to keep up two or more parallel lives and for the very many others who can't accept a long black-out imposed on their passions by enforced separation,” a Milanese family lawyer, Lina Bruna Bernardini, told *Panorama*, a magazine which last week published tips on how to avoid discovery.

Surprisingly, it made no mention of a service launched earlier this year by a mobile-phone operator, Vodafone Omnitel. Called Alter Ego, this provides two numbers on the same SIM (subscriber identity module) card, ostensibly to help people keep professional and personal calls separate. It may have other uses.

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Kosovo and Macedonia

Fag-ends or freedom fighters?

Sep 11th 2003 | PRISTINA AND SKOPJE
From The Economist print edition

Violence in Kosovo and Macedonia is threatening the area's fragile peace

ONCE again, talk of a Greater Albania—an idea, if it came to fruition, that would cause chaos in the Balkans—is in the air. This time it is the guerrillas of the Albanian National Army (better known by its Albanian-language initials, AKSh) who are trying to spread the word. They want to unite their cousins in Kosovo and elsewhere in Serbia and Montenegro, Greece, Macedonia and Albania proper. Their latest violence is rattling politicians and diplomats across the Balkans, especially in Pristina and Skopje, capitals of Kosovo and Macedonia respectively. Their shenanigans are undermining Macedonia's fragile coalition government, in which the country's ethnic-Albanian minority and Slav Macedonian majority edgily share power.

Though there have long been whispers about AKSh's plans, it was not until April, after a bridge in northern Kosovo had been blown up, that Michael Steiner, the German diplomat then running Kosovo under the UN's aegis, declared the group a terrorist organisation. It had occasionally attacked the Serbian army in southern Serbia, and it had claimed responsibility for blowing up a courthouse in the Macedonian town of Struga in February. But in the past month or so, it has stepped up its activity. In the area along Macedonia's border with Kosovo, it has killed several people; hundreds of Albanian villagers have fled their homes near Kumanovo for fear of getting caught up in the fighting.

The AKSh says it wants to redress the grievances of Macedonia's Albanians: “The fighting in Macedonia confirms that the multi-ethnic state is false. Macedonia's government cannot accept that Albanians have equal rights. It was waiting for an excuse to use violence.” In the long run, the group envisages a Greater Albanian state encompassing all ethnic Albanians.

In fact, the AKSh represents few ethnic-Albanians. Its core consists of some 50-70 cigarette smugglers drawn from both sides of the border with Kosovo. Their latest violence has been largely prompted by their desire to stop Macedonia's police from shutting down their smuggling routes and putting them behind bars. Hisni Shaqiri, an ethnic-Albanian MP in Skopje who is trying to help keep the peace between Macedonia's Albanians and Slavs, describes Avdil Jakupi, the AKSh's “divisional commander” known as Chakala, as a “mental patient and heroin addict”. A British brigadier advising the Macedonian government

on defence calls the AKSh “criminals flying a political flag of convenience in the hope of finding legitimacy”.

The worry, though, is that the Macedonian authorities may overreact—thus stirring nationalist Albanian passions, whatever the AKSh's criminal connections. This week Mr Shaqiri said that the Albanians' Democratic Union for Integration (DUI) would withdraw from Macedonia's Slav-led coalition government if Macedonian police or soldiers killed any civilians. In the past month, outsiders have had to persuade the DUI's leader, Ali Ahmeti, to keep his party in government; the Macedonian Slavs have not, he complains, consulted his peace-minded Albanians enough. The accord signed two years ago between representatives of the two communities is holding. But DUI people in government say their Slav Macedonian compatriots have not consulted them properly over how to respond to the AKSh's attacks.

The tension is not just on the Macedonian side of the border. Kosovo is twitchier too. All three mainstream Albanian parties there say independence is overdue and fear what they see as Serbia's growing influence in Washington and at the European Union's headquarters in Brussels. Ramush Haradinaj, leader of the Alliance for the Future of Kosovo, the most nationalistic of the three, condemns the AKSh but says “people are frustrated because there's no progress on [Kosovo's] final status and the international community shows no commitment to resolve it.”

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Child abuse in Ireland

A judge complains

Sep 11th 2003 | DUBLIN
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The government is on the defensive over a child-abuse inquiry

FOUR years ago, Ireland's prime minister, Bertie Ahern, apologised to the thousands who had been victims of sexual abuse in their childhood while living in state-supported institutions, many of them run by Catholic religious orders. Further, he agreed to set up a commission of inquiry to try to soften the ill effects on surviving victims and to offer some belated justice.

Chaired by a judge, the inquiry had a broad remit—to investigate the sexual abuse of children in residential care—and was asked to go all the way back over the past half-century. The judge was to listen, in confidence, to victims; to authorise investigations into specific allegations; and to publish her findings. A separate “redress board” was set up to award financial compensation.

Now Mr Ahern's words have returned to haunt him. Judge Mary Laffoy, who chaired the commission, has unexpectedly resigned—with a bang, accusing Mr Ahern's coalition government, dominated by his conservative Fianna Fail party, of impeding the commission's investigations and of flouting the will of the Irish parliament by trying to change the inquiry's remit. An embarrassed government has offered a muted rebuttal. It says it wanted to cut legal costs and save time, otherwise the inquiry might have lasted 11 years and benefited lawyers more than victims.

The commission has certainly done a lot of listening. In private, it has heard from over half the 1,112 victims who do not want their cases investigated but it has managed to investigate only 2% of the further 1,730 who do; and the redress board has heard barely 10% of the compensation claims so far.

Ms Laffoy blames the government for putting obstacles in her way and complains that it took two years to agree on how to compensate survivors of abuse. Mr Ahern's government, in a controversial settlement with the church, has agreed to cap (at €128m, $110m) the financial liability of the religious institutions for any child-abuse claims. But that has left the taxpayer facing unlimited liability for claims above that amount.

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Charlemagne

Cracks in the college

Sep 11th 2003
From The Economist print edition

The European Commission is heading for trouble

SOME powerful organisations are headed by a cabinet, others by a supreme council or board of management. The 20 commissioners who run the European Commission, however, are called “the college”. This title, with its academic and ecclesiastical flavour, captures the outfit's self-image. The commission, part executive and part civil service, sees itself as far more than a mere branch of government. It is the embodiment of the “European idea” and the disinterested guardian of European law. While the countries of the EU vulgarly battle to promote their national interests, the commission stands above the fray and identifies the general good. And while national governments are riven by internal rivalries and political infighting, the multinational college sails on serenely in a spirit of good-fellowship.

There is an element of truth to this saccharine self-image. Commissioners are free from many of the pressures of national politics: they are not elected, very seldom reshuffled and almost never fired. In such circumstances, they can afford to be high-minded and collegiate. Appropriately, the commission is headed by a real live former professor, Romano Prodi, an Italian.

But like many a college head in the academic world, Mr Prodi's management style is an infuriating mixture of vagueness and guile. Even those of his colleagues who retain some affection for the man despair of his inability to stick to an agenda and of his tendency to fall asleep in meetings. (Or do his closed eyes simply mean he is thinking deeply?) Mr Prodi has also alienated many of the other commissioners by his habit of making damaging off-the-cuff remarks and by his penchant for secretively compiled reports that undermine his colleagues' work. Pedro Solbes, the commissioner for economic affairs, was left looking like a chump after Mr Prodi described the euro zone's fiscal rules, which Mr Solbes has stoutly defended, as “stupid”. The commissioners taking part in Europe's constitutional convention discovered that a group of Prodi advisers had written an entire draft in secret. Such incidents have taken their toll on collegiate spirit.

Mr Prodi's two vice-presidents do not make up for his deficiencies. Neil Kinnock from Britain is quietly despised in multi-cultural Brussels for speaking only one language. His volubly expressed interests in Welsh rugby and British Labour Party politics of the 1980s are not widely shared by his colleagues. Loyola de Palacio, a Spaniard who is the other vice-president, is guilty of another grave sin against Brussels piety: overt nationalism. All commissioners promise never to fight their country's corner. All violate this promise from time to time. But Ms de Palacio does it with a regularity and crassness that grates on some colleagues. She and Mr Kinnock get on badly. And there are other rivalries in the college. Chris Patten, the foreign-affairs commissioner, and Poul Nielson, in charge of aid, are constantly battling over turf. Margot Wallstrom, who oversees environment, and Erkki Liikanen, the enterprise commissioner, snipe at each other over business regulation. She wants more of it; he wants less. After four years of their five-year mandate, far from building up a jolly college spirit, the commissioners show every sign of growing sick at the sight of each other.

The Prodi commission's last year was always likely to be tricky. All the commissioners are now thinking about their political lives after November 2004. Mr Prodi increasingly focuses on his role as the Italian opposition's de facto leader. Other commissioners, such as Ms Wallstrom and Portugal's Antonio Vitorino, are manoeuvring for grander jobs in Brussels. And somehow Mr Prodi must find portfolios for ten new commissioners from the countries due to join the EU next May. One idea is for them to shadow current commissioners for six months, until a new college is formed at the end of the year. As one insider puts it, they will be “interns with BMWs”.

This end-of-term atmosphere is unsettling enough. But in the coming weeks a much worse fate may

befall the commission than the usual bickering. A scandal is fermenting over the misuse of funds at Eurostat, the commission's statistical arm. The details are complicated and, frankly speaking, not all that shocking. Watergate it ain't. But a report has been commissioned and Mr Prodi faces a painful session before the European Parliament on September 25th.

Find the fall guy

A parliamentary hearing of this sort brings back bad memories for the commission. The entire college was forced to resign by the parliament in 1999, after a corruption scandal. This time there is a widespread feeling that Mr Prodi will try to limit the damage by demanding the resignation of one of his commissioners. The favourite for the role of sacrificial lamb is Mr Solbes, who is nominally in charge of Eurostat. Mr Solbes's defenders point out that one of the main reasons he failed to act more quickly to stamp out dodgy practices at Eurostat was that the whole affair was still being investigated by OLAF, the EU's anti-fraud office. The problem, they say, was not Mr Solbes but the commission's procedures. So if anyone is forced to go, perhaps—they suggest—it should be Mr Kinnock or Mr Prodi, the two men charged with the commission's smooth internal running. This is a fair point but may not be enough to save Mr Solbes. A softly spoken Spaniard, he lacks the sharp political instincts and powerful friends of some more senior colleagues. There is a growing sense that somewhere in the commission the name of Solbes is already being engraved on a bullet.

Since Mr Solbes is also the staunchest defender of the euro area's stability pact, which is coming apart as France flouts its conditions, his departure, while unfair, might be convenient. On September 23rd the commission will have to meet to consider its internal report into the Eurostat affair. If Mr Prodi does indeed try to force one of his team to resign, it could be a tense, rough—and distinctly uncollegial—meeting.

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Children

Suffer the little children

Sep 11th 2003
From The Economist print edition

To keep tabs on vulnerable children, the government is widening its surveillance network. Parents may not like that

VICTORIA CLIMBIÉ was eight when she died three years ago, tortured by her great-aunt and a man. An official inquiry into her death blamed lack of professionalism and poor communication among the many police, hospital staff and social workers who had dealt with her. Nothing new there—over the past four decades, dozens of inquiries into abused and murdered children had reached similar conclusions. But this time, the official response was much more far-reaching.

On September 8th, the government revealed plans to reform the child-care system, and greatly expand its reach. In future, education and children's social services will come under the control of new “directors of children's services”. As soon as it proves technologically feasible, every child will be given a tracking number, the better to allow doctors, teachers and social workers to share information about them. Those who might regard such a step as an intrusion of privacy are neatly brushed aside: “The government wants to prevent situations where a child does not receive the help they need because of too rigid an interpretation of the privacy of the child and their family.”

Uncompromising stuff—but as Nigel Parton, an expert on child welfare, points out, this week's announcement merely pushes forward reforms that are already well under way. In an unambiguous display of reforming zeal, the Labour government has involved itself more and more closely in the lives of younger children. It has laid on free nursery education for three- and four-year-olds and funded hundreds of Sure Start programmes, which provide basic education and health care in poor neighbourhoods. By next year, it hopes, 400,000 children will benefit from them. Older children get Connexions, a new counselling and referral service; they are also subject to increased scrutiny of their behaviour, thanks to an ongoing crackdown on truancy and anti-social behaviour (see article).

The notion that governments ought to protect children is not new. It was popular in the 19th century, thanks in part to writers such as Charles Dickens. There was another burst of concern during the second world war, when young street urchins evacuated from urban slums stunned polite rural citizens with their ignorance of domestic hygiene—and then, in many cases, went home to fatherless households. The needs of the nation's youth were perceived to be so great that, in 1948, local authorities were asked to set up children's departments—a harbinger of this week's announcement.

As far as government perceptions are concerned, though, two things separate Oliver Twist from the modern Sure Start child. The first has to do with numbers. From Dickens's time until recently, the main focus of policy was to rescue small numbers of seriously endangered children. Current thinking is that prevention is better: get to more children at a younger age, and later catastrophes can be avoided. Demographic change has made it easier to scrutinise the lot. There are now fewer than 3.5m children under the age of five—down from 4.5m in 1971—and as a proportion of the population, they are much less numerous than the Victorian urchins.

The notion that governments ought to protect children is not new

The prevention agenda means widening the net beyond the destitute, dysfunctional families that have hitherto come in for the most intensive surveillance and treatment. The expansion of nursery schooling has already achieved this, in a benign manner. And tougher stuff is on the way. This week's announcement of a child tracking system came along with a question: at what point should detailed information about children, collected by doctors and social workers, automatically be shared with schools and the police? If the bar is set only at parental conviction—one of the hints thrown out by the government this week—that will catch many: 7% of schoolchildren suffer the imprisonment of their father. Lower it much further, and

complaints will be heard about the Big Brother state.

The other innovation is to treat vulnerable children as potential troublemakers. Oliver Twist, despite his involvement with criminal gangs, is presented as a victim. These days, troubled children are treated as future offenders. Nurturing them is therefore seen as a good way of avoiding future grief and expense. Not surprisingly, Sure Start was imported to Britain by the Treasury, which was impressed by cost-benefit studies showing returns of up to 7:1 for American Head Start programmes (nearly all the assumed returns come from reductions in crime and court costs).

Now that the government's double agenda has emerged into the light, it may prove a difficult sell. Parents—particularly middle-class parents—tend to believe that close scrutiny is a good thing, provided that other people's children are involved. They will be inclined to support measures that make the streets safer, the more targeted the better. They may be less willing to support the expensive growth of universal children's services, if, as now seems clear, those services will be used as a means of keeping tabs on them.

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Anti-terrorism laws

Liberty adrift

Sep 11th 2003
From The Economist print edition

Demonstrations are not the same as terrorism

AP

Dressed to kill?

LAWFUL protest is one thing, terrorism quite another. That distinction is invariably blurred in dictatorships, but usually upheld in democracies. Which is why there is growing concern about the use of anti-terrorism laws against demonstrators in Britain.

This week, the police arrested two protestors and stopped and searched a number of others at Europe's biggest arms fair, held in east London, using the provisions of the Terrorism Act 2000. This gives police officers much wider powers than the everyday law, which requires action to be based on “reasonable suspicion”. Throughout this year, there have been persistent complaints that the police were routinely using the anti-terrorism law against anti-war protestors at two big American bases.

Now a pressure group, Liberty, is mounting a judicial challenge to the police action at the arms fair. The move is supported by both the Conservative and Liberal Democrat spokesmen on home affairs. That seems to have embarrassed the government. The home secretary, David Blunkett, has asked the head of counter-terrorism at the Metropolitan Police to report on what powers officers have used against demonstrators and why.

There are certainly a number of troubling questions that need answering. One is the way the powers—introduced before September 11th in response to resurgent IRA terrorism—have been authorised. In theory, a police force must ask the government for specific permission to use these exceptional powers; this should last only 28 days. In practice, authorisation covering the whole of London has been “continuous and rolling”, according to one official. Citing the need for security neither the police, nor the Home Office, will give any further details about who authorised this, when and why. Nor is it clear what basis officers use when deciding to exploit anti-terrorism legislation rather than general public-order laws, at what level this is authorised, and who reviews it.

Another puzzle is the presence at the arms fair of officers of the Ministry of Defence police force, a 4,000-strong body that is exempt from normal oversight. Its original task was to guard military property. It now has a licence to operate anywhere, in co-operation with the local police force, or wherever military property may be at risk. This gives plenty of scope, which civil libertarians think could be easily abused.

Britain's anti-terrorism legislation is pretty tough. It allows secret jury-less trials and indefinite detention; foreigners receive unequal treatment; the government can strip citizenship from those it dislikes. The justification for such draconian powers was that they would be used only against real terrorists. No one said anything about peaceniks.

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Intelligence and Iraq

Kelly's victims

Sep 11th 2003
From The Economist print edition

The defence secretary, Geoff Hoon, is this week's target

Get article background

WHEN Tony Blair decided two months ago to set up a judicial inquiry into the death of the government scientist, David Kelly, he can have had little idea how far-reaching its consequences would be. This week the inquiry, headed by Lord Hutton, is in recess, so things were expected to be quiet. But the documents the inquiry has brought to light have made a report by Parliament's Intelligence and Security Committee (ISC), published on September 11th, far more damaging than it otherwise would have been.

On the main issue—whether the BBC was right to claim that the government “sexed up” intelligence before the Iraq war—the report exonerates Downing Street's director of communications, Alastair Campbell. It concludes: “The dossier [published last September] was not sexed up by Alastair Campbell or anyone else.”

But Geoff Hoon, the defence secretary, is dismissed in a lethal paragraph. The committee criticises him for giving it “potentially misleading” evidence and says that it is “disturbed” by his failure to reveal that two members of the Defence Intelligence Staff had expressed their concerns about the intelligence dossier.

Mr Hoon told the ISC in answer to a direct question that “there had been a dispute” about the wording of the claim that Iraq could deploy weapons of mass destruction within 45 minutes. But Lord Hutton's inquiry has disclosed that Mr Hoon knew that the disagreements were more serious than that. The deputy chief of defence intelligence, Martin Howard, sent him a minute on July 18th, four days before his committee appearance, warning him that two Defence Intelligence Staff members had expressed, in writing, serious concern that the dossier had exaggerated the threat posed by Iraq. Mr Hoon disregarded both this and Mr Howard's advice that he should write to the committee after his evidence clarifying the position. Without Lord Hutton's inquiry, none of this would have been known.

The committee's damning judgment on Mr Hoon may eventually force him to resign. However, Jack Straw, the foreign minister, said after the report's publication that he had “no doubt that [Mr Hoon] should and will continue in post.”

Though the ISC clears Downing Street of the charge that it perverted intelligence in the run-up to the war, it is critical of a muddled series of judgments which led the Joint Intelligence Committee (JIC) to fail to clarify the 45-minute claim. In his evidence to Lord Hutton's inquiry, the JIC's chairman, John Scarlett, revealed that the threat of rapid chemical or biological attack related not to long-range missiles but “battlefield mortar shells or small-calibre weaponry”. The ISC says the fact that the 45-minute claim referred to battlefield weapons, rather than longer-range missiles, should have been highlighted. It also says that the JIC implied greater knowledge than it had of Iraq's chemical and biological weapons.

The committee concludes: “The JIC's independence and impartiality has not been compromised in any way.” Not everyone will agree with this verdict. Sir Percy Cradock, a former JIC chairman, points out that the committee's job is to keep its distance from policymakers. That clearly did not happen. But Downing Street will be content with this verdict. The BBC, by contrast, has a problem. It is still standing by its partially discredited story but it will now have to decide whether to retract those bits which, in the light of the ISC's report, are no longer defensible.

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Moving civil servants

Sticking points

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Decentralising government is sensible but difficult

ON SEPTEMBER 9th, a review chaired by Sir Michael Lyons, a former chief executive of Birmingham Council, concluded that at least 20,000 bureaucrats could be shifted from the capital. One of the main reasons why the government wants to do this is high house prices in the south-east. And that's one of the main reasons why it will be difficult to achieve.

Decentralising government makes sense, not just because it relieves pressure on the capital, but also because it saves money. In 1991, the Patent Office moved from London to Newport in south Wales. About 250 of the higher paid staff moved and fewer than 50, mainly those close to retirement, did not. By 1994, the National Audit Office reckoned that the move had saved the government £6m a year.

Sir Michael says that about 231,000 of the government's 704,000 employees are in London and the south-east. Big savings ought to be possible. One ministry found its London office rent was twice as expensive as the same space in Manchester. Another found it spent £10,230 per work station in London compared with an average of £6,800 across its office network.

Yet shifting them can be pricey. The Health Service Executive went to Leeds in the early 1990s, but because of high fares to meetings in London, the removal costs may not be covered by savings until 2030. The Met Office, now moving from Bracknell in the south-east to Exeter, reckons it will be 40 years before the savings cover the cost—about £150m over 15 years, roughly equal to one year's revenues.

About three-quarters of the 1,200 or so weather forecasters look likely to move, mainly because they don't have a huge choice of employers. Anyway, Exeter is nicer than Bracknell. But relocating people with more job choice is trickier. The people who are willing to move to, say, the north of England, tend to be northerners who always planned to move back, says Patrick Gatenby, northern regional manager of Michael Page Finance, a recruitment consultancy.

Such returners can cash in their expensive southern houses and buy a nicer home in a cheaper place. But these differentials can actually make some people less keen to move out of London. Scottish financial firms, for example, have found that fear of losing a place on the London property ladder deters some professionals from moving north of the border, though this is now less of a problem since a recent boom in Edinburgh house prices.

Jobs for husbands and wives of movers are also a sticky issue. Anne Green, of the Warwick Institute for Employment Research, says: “People don't want to move if it means disrupting a partner's career.” Employers may have to bribe valuable staff to stay, but that means relocation costs can spiral out of control.

That seems to be happening to Scottish Natural Heritage, an environment quango, which the Scottish Executive wants to move from Edinburgh to Inverness. The 270 staff have reacted with horror at the prospect of being up-rooted. Consultants reckoned the move would cost £20m but the agency's management now think it will be more like £30m. And Albie O'Neill, a civil service union official, says: “If half of them do move, I'll be very, very surprised.” Vacancies, rather than people, may be shifted north.

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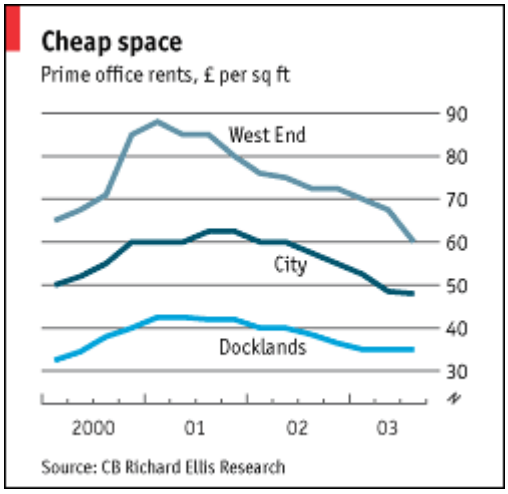
London offices

Gloom is not doom

Sep 11th 2003
From The Economist print edition

Rents have crashed. Yet two big property companies face bids



WITH plans for 13.5m square feet of space, it was, and is, the biggest office-development project in London (indeed in Europe, bar the French state's gigantic scheme at La Défense west of Paris). In 1992, its developers went bust. But the scheme was bought up, and building began afresh; over 10m sq ft have been completed. Yet now the Canary Wharf company, with its giant pyramid-topped tower dominating the former docklands of east London, is up for grabs again.

On the western edge of inner London lies another other big project, Paddington Basin, with 1.1m sq ft of office space. Its developer, Chelsfield, also has a scheme nearly as big, but mainly for shops, a bit further west. Both schemes include housing, and the company dreams of yet another mixed project, in east London, that would dwarf the two together. But Chelsfield too is awaiting a bid.

From whom? The money will have to be big. The stockmarket values Canary Wharf at £1.6 billion, equal fourth in the sector. Chelsfield stands at £860m. Canary Wharf has already had two offers. But Paul Reichmann, the man who drove the scheme in the 1980s and now heads the company, says he may yet cap both with a bid. Elliott Bernerd, Chelsfield's founder-chairman, said this week that he would put together a bid by mid-October.

Why, and why now? Mr Reichmann launched Canary Wharf in 1987; it went bust in 1992; he bought it back in 1995 and floated part of it in 1999. Mr Bernerd likewise built up one property business, sold it, built a second, Chelsfield, and floated it in 1993. Both men have hefty stakes in their companies—7½% for Mr Reichmann, 12% for Mr Bernerd and family—and both have big private backers (Mr Reichmann has a Saudi Arabian, Mr Bernerd another Saudi and a Hong Kong businesswoman).

One reason for bidding is that the constraints of quoted-company status are especially felt in property. Its costs come in big chunks, typically met by borrowing. So do its risks; and the level of gearing that a private entrepreneur judges a fair bet can be, as Mr Bernerd feels, more than a public company should accept.

Another reason for Mr Bernerd—and others, not only in property—is a feeling that the market values their companies too low. Which, as Mr Bernerd laments, does not help to motivate managers who hold share options. Chelsfield shares rose by 23% in May when he talked of a bid.

In any trade, the time to buy is when things are down but looking up. London's office market has been in a strange state. Cheap money and demand from foreign funds have combined to keep investment prices up, even as rents have slumped. These soared in 2000-01, then crashed; especially, as banks sacked staff and new buildings came on stream, in the City and Docklands, the main, fiercely rival, financial districts. From a low of 2m sq ft in mid-2000, available space there totalled 13m by mid-2003 (and that excludes space that some big Canary Wharf tenants want, and are entitled, to hand back). New rents fell 20-25% in a year, even with inducements like 2½ rent-free years at the start of a 15-year lease.

Yet the gloom is lightening, says CB Richard Ellis, the leading office agency. The stream of new offices will be a trickle a year from now; Land Securities this week postponed one West End big scheme. And the

economy is looking up. Rents may dip a bit further, but not much. A property bid now may be a good buy by 2005.

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The economy

Green shoots

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A pick-up in growth suggests that interest rates have troughed at 3.5%

THE economy barely grew at all in the first three months of the year and accelerated only modestly in the second quarter. But there are signs that a more vigorous upswing is under way. What's more, the recovery is likely to be more balanced, with industry and exporters contributing more to growth than in the recent past.

Official figures released this week suggested that the beleaguered manufacturing economy, which accounts for about a fifth of GDP, has turned the corner. Output in the three months to July was 0.4% higher than a year ago. In the high-tech sector—mainly responsible for the two-year decline in manufacturing even though it represents an eighth of its production—output is now only a little below its level a year ago.

New trade figures were also encouraging. The deficit in goods, which had ballooned to £4.5 billion in June, fell to £3.3 billion in July; and the gap in goods and services narrowed from £3.5 billion to £2.5 billion. The improvement was driven by a sharp increase in the value of goods exports, which rose by 7%. There was an especially sharp bounceback in the value of exports to countries outside the European Union where recent declines had been concentrated.

These figures were for July, but more up-to-date surveys suggest that this momentum will carry through the rest of the third quarter. The purchasing managers' index for the manufacturing sector rose in August to almost 52, its highest since May 2002; a level above 50 indicates expansion. A similar index for private services also rose in August to its highest level since the start of 2001. The National Institute of Economic and Social Research estimated this week that GDP grew at an annual rate of 3.1%—above trend—in the three months ending in August; and that industrial output rose at an annual rate of 4.2%.

Any recovery would be welcome after the slow growth of the first half of the year. But the Bank of England will be pleased to see some early indications that the recovery will be less reliant on consumer spending than GDP growth in the second quarter. Even so, buoyant figures for borrowing in July suggest that consumers have not exactly been slacking on the job.

As the outlook for growth brightens, so it becomes more and more likely that interest rates hit bottom when they were cut in July to 3.5%. The Bank of England's Monetary Policy Committee (MPC) will reveal next week its thinking behind the decision to keep rates on hold on September 4th. But Paul Tucker, a member of the MPC, arguably gave an early warning of its ultimate intentions when he advised people to manage their personal finances “on the basis that rates are likely to be somewhat higher on average in the medium term”.

The Bank is unlikely to raise rates in a hurry. The MPC will want to see more conclusive evidence of a sustained recovery. Financial markets are now starting to price in a rise in interest rates but many City economists think this will not happen until next year. Even this marks a sharp change in mood; only a few weeks ago, rates were expected to fall again rather than to rise.

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Unions

The awkward squad

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How the unions can hurt the government

THE prime minister is understandably keen for the focus of politics to return to what he calls the "domestic agenda". This week, Britain's trade unions, at their annual seaside congress, have been doing their bit to help, but not in ways that can have given Tony Blair much comfort.

The unions are an ungrateful lot. The minimum wage, the EU working-time directive, new union recognition rights, flexible working and nearly 400,000 new public sector jobs have all been pocketed and more or less forgotten. The "awkward squad"—the new generation of left-wing union leaders—regards Mr Blair as the leader of a Tory government in disguise. For them, the private finance initiative, foundation hospitals and university fees symbolise the government's determination to privatise the public sector and erode the principles of universalism. They are fervently anti-war, too. Tony Woodley, the new leader-elect of the Transport and General Workers' union, this week called for Mr Blair to resign over Iraq.

So just how serious a threat do these men (and they are all men) pose to the government? In some ways, the unions look feeble. Despite those new jobs in the 60%-unionised public sector, membership has stagnated at a little over 7m. In the private sector, it has slipped below 20%. Among younger workers and in the faster growing regions and sectors of the economy, the proportion is down to single figures. As for strikes, the firemen's defeat warned other unions against unrealistic demands. Nobody is predicting a return to the 1970s.

Nor is the Labour Party's funding at risk. Few union leaders want to give up the influence (real or imagined) that comes from bankrolling the governing party. Just the opposite: they want to become more involved by taking advantage of the collapse in party membership that has been accelerated by unhappiness over the war. They plan to affiliate scores of members to constituency parties, thus winning control over Labour's grass roots. Whether they can actually summon up enough politically active members to achieve success is, however, questionable.

The one union campaign which could cause the government real embarrassment is over pensions. The winding up of many final-salary schemes has infuriated workers. The government is also on relatively weak ground, having made a difficult situation worse by levying new taxes on the pensions industry.

But the biggest worry by far for the government is bloody-minded opposition to change in the running of public services—opposition that increasingly finds an echo among newly rebellious Labour MPs. In an effort to enlist union co-operation, Mr Blair last week announced a "forum" through which the government and the public-sector unions could discuss how to achieve the improved delivery the government's reputation is riding on.

The prospects for the forum are not good. If the government sticks to its guns, the unions will dismiss it as a talking shop. On the other hand, if they are given a greater say, the pace of reform, already pretty slow, will become positively glacial. Mr Blair's capitulation earlier this year over the "two-tier workforce" issue (giving private-sector employees working for public services the same rights as their public-sector counterparts) may already have damaged his hopes of introducing competition to publicly funded services.

Britain's unions are relatively weak and, for all the bluster in Brighton, probably getting weaker. But they still have the power to block the changes that Mr Blair has staked his government on, and they intend to use it.

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Bagehot

The politics of behaviour

Sep 11th 2003
From The Economist print edition

Nothing upsets voters more than anti-social behaviour. It's time that politicians took notice, says Frank Field

ON SEPTEMBER 10th, the Home Office attempted something unprecedented. It set out to measure the extent of anti-social behaviour in Britain. Over a 24-hour period, police, local authorities and other agencies were instructed to count the number of incidents falling under 13 broad headings ranging from intimidation to noise.

Iraq, the health service, schools, taxes—these may be the big political issues, the ones that are expected to determine the future of the government and Tony Blair. But they are not what are filling the mailbags and the surgeries of most Labour MPs. In the past it would have been complaints about social security, housing or employment. The issues may have been complicated, but with experience and diligence, MPs could usually come up with fairly satisfactory answers to the problems of their constituents.

Today, they are deluged by problems they have no answer to. What dominate now are accounts of incivility, disorder and nuisance—that menacing mix of small crimes and misdemeanours known as anti-social behaviour.

Nobody quite knows the scale of the problem, hence the Home Office survey, but almost everybody thinks it is growing rapidly. And while it is the poor whose lives are most blighted, few are left untouched. Part of the difficulty of gauging the extent of anti-social behaviour is that much of it does not show up in the usual crime statistics. That may be one reason why people think crime is getting worse when the official figures point in the opposite direction.

In a new book*, Frank Field, a Labour MP, explains it thus: “The distinguishing mark of anti-social behaviour is that each single instance does not by itself warrant a counter legal challenge. It is in its regularity that anti-social behaviour wields its destructive force. It is from the repetitive nature of the nuisance that anti-social behaviour is born.” Mr Field adds: “It is because such behaviour was, until quite recently, unimaginable that no effective legal remedy exists to counter it.”

Mr Field has watched in anguish as the lives of his Birkenhead constituents have increasingly been made a misery by a relatively small number of horrible families. He believes that a new type of politics—the politics of behaviour—is needed if society is not to become engulfed by the disorder which is triggered by a delinquent few.

Mr Field is a maverick. Throughout his life he has campaigned against poverty and inequality—he made his name in the 1970s running the Child Poverty Action Group—yet on many issues he finds himself on the right of the political spectrum. He has little time for political correctness and has been a consistent critic of the potentially demoralising effects of some types of welfare on personal responsibility and community spirit.

He deplores the erosion of respect without which any society founders, believing that in many families parents no longer teach their children how to behave decently. Mr Field argues that social discipline (or virtue) was the natural consequence of the evangelical Christianity and mutualism from which the Labour movement grew in the late 19th century. By contrast, welfare today centres on rights which have slipped free of the duties that held them socially in check.

Mr Field, a devout Anglican, was talking the language of rights and responsibilities long before Tony Blair turned it into a New Labour mantra. When he was appointed as “minister for welfare reform” in the first Blair

It is in its regularity that

government, the prime minister explicitly urged him to “think the unthinkable”. Mr Field thought that this meant he could operate independently of the chancellor, Gordon Brown. He lasted a year, which was a little longer than some old hands had predicted.

anti-social behaviour wields its destructive force

Despite some crude spinning against him when he left government, Mr Field's intellectual rigour and moral passion continued to win him a rare degree of respect on both sides of the Commons. He also gets a hearing in the upper reaches of the government: both the prime minister and the home secretary, David Blunkett, are fans. This year, the Home Office published a white paper entitled: “Respect and Responsibility—Taking a Stand against Anti-Social Behaviour” that formed the basis of the Anti-Social Behaviour Bill now going through Parliament.

Some more unthinkables

However, Mr Field doubts whether the government even now has the measure of what needs to be done. Unsurprisingly, he wants to see much more spent on policing. But he would also like the police to be given the power of surrogate parents to discipline out-of-control youths. The courts could hear appeals against any restrictions imposed, but a mechanism would exist to give victims immediate relief from their torment.

Still more controversially, Mr Field advocates that welfare payments should be based on contracts that link eligibility to acceptable behaviour. He sees the welfare contract as the codification of the responsibilities the state and the individual owe each other, thereby strengthening the position of teachers and social workers who at present do not have any remedy against young people who behave vilely to them.

Some liberals will feel squeamish about measures which threaten to penalise people who are by definition already at the bottom of the heap. Mr Field has an answer. Many of the failing parents he has met are aware of their shortcomings and would value the reinforcement this would offer them. Mr Field believes, to use the imagery of Edmund Burke, that the contracts can repair the riverbank within which society flows. After the pounding its own defences have taken recently, the government could well see Mr Field's ideas as just the lifeline it needs.

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*“Neighbours from Hell: The Politics of Behaviour”, published by Politico's

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In the name of Islam

Sep 11th 2003
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Magnum

September 11th seemed to pit Islam against the West. But the main fight is taking place within the Muslim world, argues Peter David

“THE next war, they say.” That was the headline printed at the top of this page the last time *The Economist* published a survey of Islam, in August 1994. We concluded that conflict between Islam and the West was by no means impossible. But the writer of our survey was not convinced that it was inevitable. Another possibility was that the anger and disillusionment that seemed to be sweeping through the world of Islam in the 1990s might turn in a more benign direction. Was it not similar to the disillusionment that began to sweep through Christendom in the 16th century, which led via the Reformation to the development of modern democracy?

To some, the felling of the twin towers two years ago this week offers dramatic evidence that the bleaker forecasts of the 1990s were right. What was this attack if not the start of a new war between the civilisations? Many Muslims do not like the label “Islamic terrorism” attached to the mass murders perpetrated by Osama bin Laden and his al-Qaeda organisation. Islam, they say, is a religion of peace, at peace, which has no more connection to the terrorism of Mr bin Laden than Christianity had to the 1970s terrorism of, say, the Baader-Meinhof gang in Germany or the Red Brigades in Italy. Just call it terrorism, they say: keep Islam out of it.

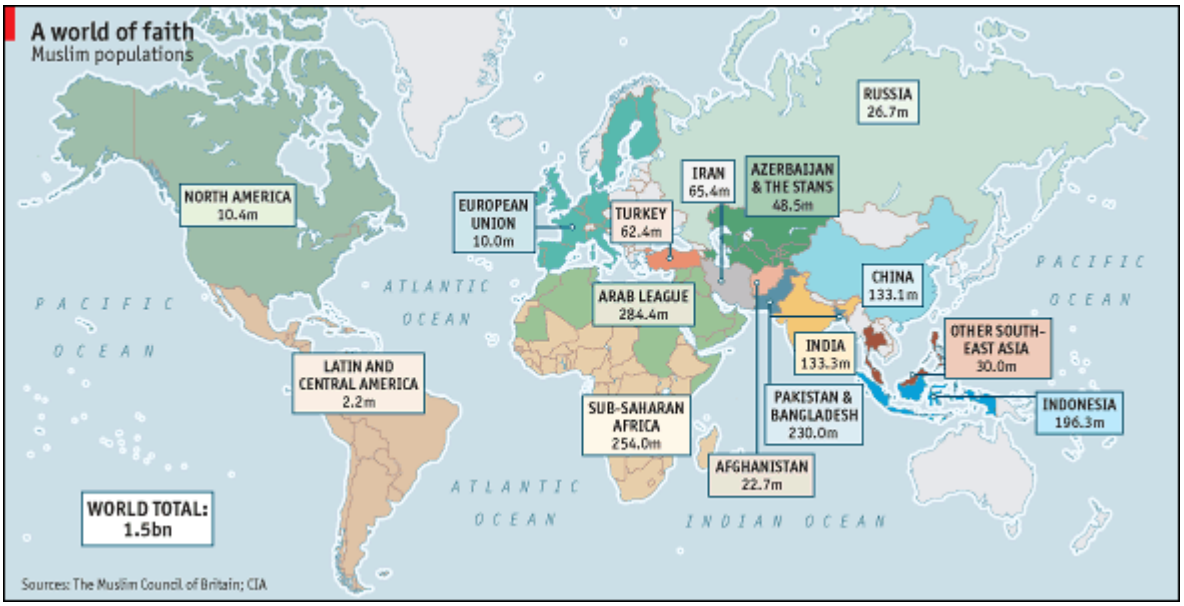
That is not quite possible. When people are trying to kill you, especially when they are good at it, it is prudent to listen to the reasons they give. And Mr bin Laden launched his “war” explicitly in Islam's name. Indeed, three years before the twin towers, he went to the trouble of issuing a lengthy “Declaration of the World Islamic Front for Jihad against the Jews and the Crusaders”, stating that “to kill Americans and their allies, both civil and military, is the individual duty of every Muslim who is able, until the Aqsa mosque [in Jerusalem] and the Haram mosque [in Mecca] are freed from their grip, and until their armies, shattered and broken-winged, depart from all the lands of Islam.”

It may be objected that any bunch of psychopaths bent on mayhem is free to say whatever it likes about its motives. Just because al-Qaeda's people kill in the name of Islam does not mean that conflict with the West is an essential part of the faith. A Marxist terrorist may say that he is killing for the sake of the working class, and that he possesses a whole body of theory to justify this activity, and that this theory is subscribed to by many people. Does that mean that it is somehow in the essence of the working class to wage war on capitalism? No. But it does suggest that societies trying to deal with Marxist terrorism need to look at Marxist ideas, and gauge the extent to which they are believed.

By the same token, the problem for those who want to believe that Islam has nothing to do with Islamic terrorism is not only that the terrorists themselves say otherwise. It is also the existence of a whole body of theory that is called upon to justify this activity, and which has zealous adherents. Admittedly, much of this theory is modern, as political as it is religious, with origins in the late 20th century. It is described variously as “fundamentalism”, “Islamism” or “political Islam” (though these terms and definitions will need closer inspection later). But some of it also has, or claims to have, connections with some of the fundamental ideas and practices of the religion itself.

Allah or ignorance

A good place to start to understand the theory is with the ideas of Sayyid Qutb, a literary critic in the 1930s and 1940s and later an activist in Egypt's Muslim Brotherhood before being executed in 1966. In the late 1940s, Qutb spent two years living in America, an experience he hated and which appears to have turned him against what most people in the West would call modernity but which he saw as something much worse.



On returning to Egypt, Qutb wrote a series of books, many from prison, denouncing *jahiliyya* (ignorance), a state of affairs he categorised as the domination of man over man, or rather subservience to man rather than to Allah. Such a state of affairs, he said, had existed in the past, existed in the present and threatened to continue in the future. It was the sworn enemy of Islam. “In any time and place human beings face that clear-cut choice: either to observe the law of Allah in its entirety, or to apply laws laid down by man of one sort or another. That is the choice: Islam or *jahiliyya*. Modern-style *jahiliyya* in the industrialised societies of Europe and America is essentially similar to the old-time *jahiliyya* in pagan and nomadic Arabia. For in both systems, man is under the dominion of man rather than Allah.”

Qutb was not the first Muslim intellectual to look at the world this way. He was influenced by a contemporary, Maulana Maudoodi in India, who was also repelled by modernity and saw it as barbarism. Both men drew on earlier episodes and thinkers. One such was a medieval theologian, Taqi al-Din ibn Taymiyya, a sort of Muslim Luther who in reaction to the Mongol onslaught of the 13th century preached a return to the essentials of the faith, which the *ulema* (clerics) of the time had forsaken. Another, in the 18th century, was Muhammad ibn Abd al-Wahhab, who advocated purging Islam of modern accretions and relying strictly on the Koran and *hadith* (the record of the prophet's words and deeds). But it is Qutb's story that offers the more interesting insight into the way Islamic terrorists think today.

One reason is that Qutb is a link with the present. The Muslim Brothers continue to operate in Egypt and elsewhere. Mr bin Laden and his deputy, Ayman al-Zawahiri, are former Brothers. More than this, the forces that Qutb believed to be undermining Islam in the 1950s and 1960s—capitalism, individualism, promiscuity, decadence—are still seen as potent threats (more potent, with “globalisation”) by Muslims today.

Qutb lost faith in the pan-Arab nationalism that was the prevailing ideology of the Arab world in his own time. In a letter from prison he said that the homeland a Muslim should cherish was not a piece of land

but the whole *Dar al-Islam* (Abode of Islam). Any land that hampered the practice of Islam or failed to apply *sharia* law "becomes ipso facto part of *Dar al-Harb* (the Abode of War). It should be combated even if one's own kith and kin, national group, capital and commerce are to be found there."

A straight line connects Qutb's letter from prison to the ideas of Mr bin Laden and his followers in al-Qaeda. Like Qutb, al-Qaeda's followers perceive Islam to be under a double attack: not just military attack from a hostile West (in Iraq, Palestine, Chechnya and so forth) but also from within, where western values spread by impious regimes are undermining what it means to be a Muslim. This double attack, in the al-Qaeda world view, is to be resisted by *jihad* in both of the two meanings this notion has in Islam: personal striving for a more perfect submission to the faith, and armed struggle against Islam's enemies. These enemies include both the far enemy (America, Israel) and the near enemy (the impious or even apostate regimes of the Muslim world). For Mr bin Laden, the Saudi regime is now as much his enemy as is the United States.

How representative are such views? Around one in four of the people in the world are Muslims. Only a small fraction of these 1.5 billion Muslims will have heard of, let alone subscribe to, the ideas of theorists such as Qutb. No more than a few thousand people are involved in the violent activities of al-Qaeda and like-minded *jihadi* organisations. After September 11th, moreover, Muslim clerics and intellectuals joined ordinary Muslims throughout the world in denouncing the atrocity al-Qaeda had perpetrated in their name. By no means all of these were "moderates". One was Sheikh Fadlallah, the Beirut-based ayatollah often described as the spiritual guide of Hizbullah, the Iranian-inspired "party of God". He issued a *fatwa* condemning the attack. Another condemnation came from Yusuf Qaradawi, a Qatar-based Egyptian television cleric with some fiery views and a following of millions.

All that is heartening. The trouble is that small groups can produce big consequences. Only 19 young men took part in the attacks of September 11th. But the 19 changed history. Their action led within two years to an American-led invasion and military occupation of two Muslim countries, Afghanistan and Iraq. This in turn has damaged Muslim perceptions of the United States, and perhaps by extension of the West at large.

Only 19 young men took part in the attacks of September 11th. But the 19 changed history

A survey last June by the Pew Global Attitudes Project reported that negative views of America among Muslims had spread beyond the Middle East to Indonesia—the world's most populous Muslim country—and Nigeria. In many Muslim states a majority thought that America might become a military threat to their own country. Solid majorities of Palestinians and Indonesians—and nearly half of those in Morocco and Pakistan—said they had at least some confidence in Osama bin Laden to "do the right thing regarding world affairs". Seven out of ten Palestinians said they had confidence in Mr bin Laden in this regard.

Besides, it is not necessary for many Muslims to have heard directly of people such as Qutb or Maudoodi or Abd al-Wahhab in order for the world-view of such men to spread. Some of the ideas of Abd al-Wahhab, for example, have been embraced for generations by the Saudi Arabian state and, more recently, disseminated to mosques far and wide on the back of Saudi petrodollars. Wahhabism is a puritanical and often anti-western Sunni doctrine, but the smaller Shia branch of Islam is also exposed to extreme anti-western ideas, such as those pumped out every Friday by mosques in Iran.

Where does all this leave the relationship between Islam and Islamic terrorism? For the average Muslim Islam is merely a religion, a way of organising life in accordance with God's will. Is it a religion of peace or of violence? Like other religions, it possesses holy texts that can be invoked to support either, depending on the circumstances. Like the Bible, the Koran (which differs from the Bible in that Muslims take all of it to be the word of God dictated directly to Muhammad, his prophet) and the *hadith* contain injunctions both fiery and pacific. Muslims are enjoined to show charity and compassion. Yes, Islam has a concept of *jihad* (holy war), which some Muslims think should be added to the five more familiar pillars of faith: the oath of belief, prayer, charity, fasting and pilgrimage. But the Koran also insists that there should be no compulsion in religion.

Islam and Christendom have clashed for centuries. But if there is something in the essence of Islam that predisposes its adherents to violent conflict with the West, it is hard to say what it might be. The search for the something might anyway be an exercise in futility, given that the essentials of the faith are so hotly contested. Islam has no pope or equivalent central authority (though some Shias aspire to one). This means, as Oxford University's James Piscatori has argued, that the religious authorities and the official *ulema* find themselves in competition with unofficial or popular religious leaders and preachers, Sufi

If there is something in the essence of Islam that predisposes its adherents to violent conflict

movements, Islamist groups and lay intellectuals. “All of these and others claim direct access to scripture, purport to interpret its contemporary meaning, and thus effectively question whether any one individual or group has a monopoly on the sacred—even as they appropriate that right for themselves.”

with the West, it is hard to say what it might be

The articles that follow are not chiefly about religion. They are chiefly about the use politics makes of religion. They are an attempt to find out why it can seem as if the world inhabited largely by Muslims has now come into conflict with the world inhabited largely by non-Muslims. Islam the faith is not the answer to this question. But the history, sociology and politics of Islam are undoubtedly part of it.

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The gods that failed

Sep 11th 2003
From The Economist print edition

The Islamists are exploiting a vacuum

SINCE September 11th, discussions about Islam have abounded with phrases such as “political Islam”, “Islamic fundamentalism”, “Islamism”, “radical Islam” and so forth. Almost nobody agrees with anybody else about what these terms mean or how they overlap. The body of ideas associated with Sayyid Qutb—the notion that man has only one choice to make, between *jahiliyya* or submission to the law of Allah in its entirety—is only one, extreme, form of Islamic fundamentalism. And fundamentalism is only one part of the bigger category of “Islamism” or “political Islam”.

In one recent book, an American academic, Noah Feldman, calls Islamism “a comprehensive political, spiritual and personal world-view defined in opposition to all that is non-Islamic.” In another, a former CIA official, Graham Fuller, argues that an Islamist is “one who believes that Islam as a body of faith has something important to say about how politics and society should be ordered in the contemporary Muslim world and who seeks to implement this idea in some fashion”. A French scholar, Olivier Roy, prefers a narrower definition: political Islam is the attempt to create an Islamic state.

Whatever the definition (and there are plenty more to choose from), the main point of interest here is the growing tendency in the Islamic world for Muslims to turn to religion as a solution or part-solution to political problems. Muslims are not alone in this. Many Americans (and Indians, and Israelis) believe that Christianity (and Hinduism, and Judaism) have something important to say about how politics and society should be ordered. But the extent of the support for political Islam sets it apart. One reason, argues Bernard Lewis of Princeton University, one of Islam's foremost (and controversial) interpreters in the West, is simply that most Muslim countries are still profoundly Muslim, in a way that most Christian countries are no longer Christian. But why?

The devout Muslim might answer that Islam is just a more successful religion than its competitors. It is indeed the world's fastest-growing religion. But another possible answer—or maybe just a less positive way of saying the same thing—is that in the Muslim world the values that compete with religion have been less successful than they have in the West. And the difficulty for the Muslim world is that a lot of these values—democracy, liberalism, “modernity” in general—are values to which many Muslims themselves say they aspire. If growing numbers of Muslims are nowadays looking to God for answers to their social, political and economic problems, it may be because other gods have failed them.

Since colonial rule, most Muslim countries have found it difficult to create successful democracies. Few joined the spurt of democratisation that followed the cold war. Only one out of five countries with a Muslim majority is a democracy. In some places—Malaysia, Indonesia, Turkey, Bangladesh—democracy has made bigger strides than in others. But the overall picture is bleak. Indonesia has only recently emerged from the long years of dictatorship under Sukarno and Suharto; Pakistan, though it has bits and pieces of democracy, is run by a military dictator; Iran is poised between revolution and counter-revolution. Over the past quarter-century, says the Brookings Institution, GDP per person in most Islamic states has fallen or remained the same.

Islam's Arab core, which contains fewer than one in five of the world's Muslims but produces a disproportionate share of its terrorists, is in a particular mess. The social contract once made possible by energy riches—you put up with autocracy and we will see to your material needs—has collapsed with the falling oil price and a rising population. In July last year, Arabs were shocked by the findings of a report from a panel of academics for the United Nations Development Programme, spelling out the full extent of this failure. For 20 years, said the UNDP, growth in income per head in the 22 Arab countries has been lower, at an annual 0.5%, than anywhere else in the world except sub-Saharan Africa. One in five Arabs still lives on less than $2 a day. Around 12m people, or 15% of the workforce, are already unemployed, and on present trends the number could rise to 25m by 2010.

The UNDP blamed these failures not on a lack of resources but on the survival of absolute autocracies, the holding of bogus elections, confusion between the executive and the judiciary, constraints on the media, and a patriarchal and intolerant social environment. The 280m Arabs spend a higher percentage of GDP on education than any other developing region, and yet some 65m adults are illiterate and about 10m children still have no schooling at all. There is little Arab writing, or translation from other languages: in the 1,000 years since the Caliph Mamoun, noted the authors, the Arabs have translated as many books as Spain translates in a single year.

Problem or solution?

Is Islam one of the causes of this pattern of failure? To a lot of Muslims, the question is upside down. Political Islam, or “Islamism”, starts from the opposite proposition: that the failures of the Muslim world are caused by having neglected Islam, not by having embraced it. “Islam is the solution,” say many Islamist political parties. The appeal of this simple slogan is greatly enhanced by the belief of so many Muslims that other answers have already been tried, and found wanting.

In the Arab world, some countries, such as Morocco, Jordan and the Gulf states, have clung on to semi-feudal forms of government. But the dominant tried-and-wanting answer following colonialism was pan-Arab nationalism, a socialist doctrine combined with the idea of uniting the Arab-speaking peoples in a single state. The theoreticians of this secular creed argued that the colonial powers had deliberately enfeebled the Arabs by chopping what should have been one nation into small and artificial states. “The Arabs”, says the constitution of the Baath Party, “form one nation. This nation has a natural right to live in a single state.”

For a while, helped along by the charisma of Nasser, Arab nationalism galvanised the masses and gave the Arabs a new self-confidence. But in the end, it failed. Attempts to combine the artificial post-colonial states fizzled out. Arab nationalism also failed to defeat Israel—not even Nasser's charisma survived the humiliation of 1967's six-day war—or to develop proper democratic institutions, or to win and hold the people's loyalty. By the end of the 20th century, writes Adeed Dawisha, the author of a splendid recent obituary of the movement, little remained but “the debris of broken promises and shattered hopes.” This is the debris into which political Islam is sinking its roots. The next section looks at two countries to show how.

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Two countries

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Who is using whom in Egypt and Morocco?

EPA

King Muhammad VI, a liberal reformer?

THEY are not “failed states”. Both are “pro-American”. But they are a mess. At opposite corners of North Africa, Egypt and Morocco are swamped by social problems. Both have parliaments and elections, but neither is remotely democratic. In Morocco ultimate power rests with a king, Muhammad VI, with the power to appoint the prime minister and cabinet. Egypt is run by a president, Hosni Mubarak, who has sat on his perch since 1981 with little check on his authority. Both have secular opposition parties, but in both places the only serious challenge to the regime comes from the Islamists. What do the Islamists want?

Abdul Moneim Abul Fotouh is a doctor, the head of the Egyptian Medical Association and a leader of the Muslim Brotherhood, the organisation to which Sayyid Qutb belonged, and which is now tolerated, within limits, by Mr Mubarak's government. It has not dabbled in violence since the 1960s, but the Brotherhood is banned as a political party—though 17 of its members sit as “independents” in the toothless People's Assembly.

Dr Abul Fotouh will never be the toast of Washington's neo-conservatives. He argues that the West has turned against Islam mainly because “the Zionist colonial-settler project” (Israel) needs western protection and so has poisoned western attitudes to Islam. On the other hand, he does not subscribe to Qutb's notion that the West is in a state of *jahiliyya*. “In general, I don't find the western way of life at odds with Islam,” says the doctor. “At the end of the day, we have a set of common humanist values: justice, freedom, human rights and democracy.”

Saeddine al-Othmani is vice-president of the Party of Justice and Development (PJD), which everybody will tell you is the only legal Islamist party in Morocco. Everybody, that is, except the party's members. On meeting *The Economist*, Mr al-Othmani and his colleagues disavow the Islamist label. Yes, the party puts somewhat more emphasis than others do on Morocco's Islamic identity. But it is dedicated to democracy, not Islam. “For us”, they say, “the problem is that 50 years after independence Morocco is way behind on justice and economic development. So our two priorities are to fight corruption and put ethics back into public life, and then to diminish flagrant social inequality by investing in human capital.”

From Cairo, Dr Abul Fotouh sends the same message; the people demonised in the West as wild-eyed Islamists are just democrats in search of justice. He swats aside questions about the role the Brotherhood would want for *sharia* in a perfect Egypt. Of course *sharia* should be honoured. However, Egypt's crisis is not the absence of *sharia* but the lack of freedom. The Brothers have faced torture and prison; he himself was jailed for five years. “The West has to understand that these regimes are crooks and thieves who just want to sit on their thrones. They worsen the image of Islam in the West and create Islamophobia.”

Along with the PJD, Morocco also has a bigger Islamist movement, Adl wal Ihsane (Justice and Charity). This one is banned from operating as a political party and its charismatic leader, Sheikh Yassine, is under house arrest. Its explicit aim is to turn Morocco into an Islamic state. But this, says its spokesman, Fathallah Arsalan, is for the long term. In the meantime, it concentrates on education and welfare. “The present social crisis is not the time for political competition,” says Mr Arsalan. “What we need now is a transitory period when Islamists, leftists and rightists should all be involved in making conditions better.”

Lumping them all together

Such encounters show that political Islam is no monolith. The mild spokesmen of the PJD,Adl wal Ihsane and the present-day Muslim Brotherhood seem a world away from the violent men of al-Qaeda. So why do people bundle such movements together under the label of “political Islam”? Because they are linked, even if in no other way, in the minds of the regimes.

Take Morocco. Last May, suicide bombers in Casablanca killed 45 people. The perpetrators were said to belong to a group called the Jihad Salafists. No evidence links the attacks to the PJD, which was quick to condemn them. And yet the attacks prompted a clampdown on the PJD. Some palace officials said the bombings showed that the king's cautious political reforms were moving too fast. At one point, the government was said to be thinking of banning the PJD from this month's local elections.

This reaction is no surprise. In Morocco, Egypt and many other Muslim countries the regimes tend to arrange Islamists along a spectrum in which they are all in the end connected. At one end are imams whose only sin is to stir too much politics into their Friday sermons (which the regimes carefully monitor). At the other end are proper terrorists such as the Jihad Salafists in Morocco or the Gamaa Islamiya (currently observing a ceasefire) in Egypt. In the middle are movements such as the PJD, the Adl wal Ihsane and the Muslim Brothers, which claim to be non-violent but which the regimes accuse of “creating an atmosphere” of militancy in which the men of violence flourish.

The oddity of all this is that the regimes do not just fear the Islamists; they also manipulate them. Morocco's government once saw Adl wal Ihsane as a useful conservative bulwark against the left. Then it encouraged the PJD to become a moderate counter to Adl wal Ihsane. Then—when the PJD started to do well in elections—the palace began to worry that the PJD was growing too big for its boots. In Egypt, likewise, the regime has often seen the Muslim Brotherhood as a tool. Dr Abul Fotouh, now in his 50s, belongs to a generation of Brothers that was encouraged by then-President Sadat to act as a counterweight to the radical left on university campuses.

It seems grossly unfair to associate parties such as the PJD, which will not even call themselves Islamists, with the wilder *jihadis*. But such parties are not above a bit of dissembling of their own. The PJD's leaders may disavow the “Islamist” label, yet they harp on about Morocco's Islamic “tradition”. Its spokesmen are evasive when asked how extensive *sharia* would have to be in their ideal Morocco. And the party is built on top of an underlying network of associations, called Unity and Reform, which is much more outspoken about its goal of Islamising society.

Given this, it is not only the government that worries about the growing influence of the Islamists. Driss Ksikes, a playwright and editor-in-chief of Morocco's *TelQuel*, a current-affairs magazine, says he deplores the way the state used the Casablanca bombings to demonise all Islamists and slither back into authoritarianism. But he has his own reservations about the Islamists. In the end, he says, the moderate PJD and the more radical Adl wal Ihsane both want to create an Islamist state based on *sharia*. They have just chosen different methods. While Adl wal Ihsane prepares the people patiently for the coming of the caliphate, the PJD works the political system and promotes a softer image. But both are heading for the same destination.

In the absence of a credible secular opposition, all this has a paradoxical result. Mr Ksikes notes that secular Moroccans are forced to hope that the king, of all people, will become the champion of modernity. The king may not actually believe in liberal democracy—what king would?—but has to pretend to believe in it a bit if he is to keep Morocco's relations with its western allies sweet.

In Egypt, too, it suits Hosni Mubarak to have an Islamist opposition at hand. This helps him to persuade the United States that if he falls, Egypt will collapse into fundamentalism. The same argument is made right across the Muslim world, from the kingdoms of Arabia to the dictatorships of Bashar Assad of Syria and Pervez Musharraf of Pakistan.

Kings and dictators point to the Islamists and say that they would be worse than their own regimes. Meanwhile the non-violent Islamists say that they will be replaced by violent ones if the state persists in repressing them. “If we have no democratic process, we will see the resurgence of the extremist groups,” says Mustapha Khalfi, political editor of Morocco's *Attajdid* newspaper.

In Egypt, argues Bahgat Korany of the American University of Cairo, the staid Brotherhood has become less alluring than the *jihadis* since September 11th. The younger generation, he says, is less likely to focus on domestic issues alone: they identify beyond Egypt with the position of Muslims at large.

Are Egypt and Morocco typical? They could hardly be more different even from each other. One was the

birthplace of Arab nationalism; the other is a monarchy. One is at the centre of the passions that sweep the Arab world; the other is a conservative backwater. But the politics of Islam in these very different countries repeats itself throughout the Muslim world. By throttling the secular opposition, authoritarian regimes have left the Islamists as the only groups with a following. It seems obvious that unless the moderate Islamists are given a fair hearing, disaffected citizens will turn to the violent organisations on their fringes which, since Iraq and Afghanistan, have a potent message of global Muslim beleaguerment to recruit more followers. So why does nothing change?

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Two theories

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Is political Islam past its peak or a mounting danger?

AP

In Turkey, a landslide victory for an Islamist party

BY AND large, and simplifying mightily, analysts of political Islam can be grouped around two opposing theories. An optimistic theory holds that violent Islamism reached a peak in the 1980s and 1990s and has now been defeated. The pessimistic theory holds that the Islamists are gaining strength and continue to pose a grave threat to the political order of Muslim states and possibly to the wider world.

The optimists draw heavily on a magisterial book by a French academic, Gilles Kepel, called “Jihad: the Trail of Political Islam”, and on a shorter book by another Frenchman, Olivier Roy, called “The Failure of Political Islam”. Mr Kepel's book was first published in 2000, before the attacks of September 11th, but he sees no need to revise his overall conclusion. His argument is that almost wherever the Islamists have tried to capture majority support—from Algeria to Iran to Afghanistan—they have failed. Like communism, the blueprint has lost its appeal. “Muslims no longer view Islamism as the source of Utopia,” he says, “and this more pragmatic vision augurs well for the future.”

Part of this theory cannot be argued with. Whereas September 11th jolted people in the West into noticing the perils of Islamism, the Muslim world itself had been convulsed by the challenge of political Islam throughout the preceding decades. And by the end of the 1990s it really was beginning to look as if the secularists, not the Islamists, or at least not the violent ones, were beginning to prevail.

Consider how things had changed. In three countries—Iran after its 1979 revolution, Afghanistan after the eviction of the Soviet Union and Sudan after an Islamist coup in 1989—Muslim governments had tried to create something resembling an authentic Islamic state. In Iran and Afghanistan Muslim revolutionaries defied one superpower and humbled another, briefly electrifying Muslims everywhere. And yet by the end of the 1990s the experiment in Sudan had collapsed, the Taliban had turned Afghanistan into a reviled dystopia and the Iranian theocracy was losing its hold not only on its foreign admirers but also on its own people. As these failures sank in, the simple slogan that “Islam is the solution” began to look somewhat less plausible.

During the same decade, Islamists suffered another sort of setback. In countries where armed *jihadis* decided to do battle with the state, they were defeated. Egypt crushed the Gamaa Islamiya. After more than 100,000 deaths, the Algerian civil war of the 1990s petered out with a victory, if a Pyrrhic one, for the regime. The mujahideen guerrillas who routed the Red Army in Afghanistan failed to turn Bosnia into another *jihad*. Hence Mr Kepel's conclusion that by the end of the 1990s violence had become a dead-end for the Islamists. It did not lead to power, and it terrified the middle classes. If political Islam has a

future, says theory one, it will henceforth consist of working within the rules of democracy and making the appropriate compromises.

The advocates of theory two, the pessimists, agree with some of this analysis. They accept that the *jihadis* failed when they clashed head on with the state. But they are less sanguine about the present state of affairs. They worry that although the states have crushed the violent groups, the influence of political Islam has not only survived but grown stronger. And they do not altogether, or at all, buy the claim of the non-violent Islamists to have adopted democratic values. Of course the Islamists say they have: they calculate that they would do well in free elections. But what if these parties turn out to be Trojan horses? What if they used elections to capture power but had no intention of letting anyone vote them out afterwards?

Again, part of this theory cannot be argued against. Despite the setbacks of the 1990s, the influence of political Islam—the idea, that is, that Islam should have something important to say about the way society is governed—has spread. Sometimes this growing influence can be measured in electoral victories, such as the landslide victory in Turkey in November 2002 of the Justice and Development Party led by Recep Tayyip Erdogan, or the capture a month earlier by Pakistan's Muttahida Majlis-i-Amal, an alliance of six Islamist parties, of 60 out of 342 seats in the National Assembly plus control of the provincial government of North-West Frontier. But success in elections is only one bit of the evidence.

The power of opposition

Even where Islamists do not win elections, or are not allowed to, they often form the only opposition that governments really worry about. There is no longer much of a “left” left in large parts of the Muslim world. Whereas the secular parties are often shells, the Islamists tend to have large and active memberships, often linked to mosques, who combine impressive welfare work with what is known as *dawa* (spreading the faith), designed to Islamise society from the grassroots. And whereas “civil society” in most poor countries is starved of money, cash pours into the Islamists. This makes them powerful even when they are not in power. “It would not be an exaggeration”, says Graham Fuller, a former vice-chairman of the CIA's National Intelligence Council, “to state that Islamists are probably more focused on civil society and the creation of institutions within it than any other political force in the Muslim world.”

Besides, the Islamists do not need always to win power in order to get their way. Secular regimes that feel Islam snapping at their heels have long responded by throwing tidbits its way just in case. Indonesia's former president, Suharto, tried to present himself as a devout Muslim in a vain attempt to save his regime. So did Pakistan's Zia ul Haq, a military dictator, and Zulfikar Ali Bhutto, a secular socialist. Other regimes have bowed to Islamist demands by putting bits and pieces of *sharia* into the law of the state, or, like Egypt and Syria, saying in their constitutions that Islamic law is one source for national law. In Malaysia, Mahathir Mohamed, under pressure from the Islamists of the PAS opposition, broke with his country's secular tradition in 2001 and declared Malaysia “an Islamic state”. Morocco's king styles himself “defender of the faith”.

Indeed, such have been their gains in opposition, and in cultivating their grassroots networks on the ground, that some Islamists think they might be better off opposing and cultivating than being in power. Rashid al-Ghannushi, an influential Tunisian exile in London, has said that if the Islamists' social-missionary work comes into conflict with their political interests, the former must be put first, because Islam's social achievements are liable to be more permanent than its political ones. “The most dangerous thing”, he says, “is for the Islamists to be loved by the people before they get to power and then hated afterward.” (Iran take note.)

The pessimists say the “successes” notched up this way by political Islam in opposition shift the centre of gravity in Muslim societies towards religion, bigotry and censorship and away from secular liberalism. The optimists demur. Do not think that the aim of Islamist parties is only to give religion a bigger say, they argue. These groups are trying to reform society in numerous ways, using Islam to make their message more appealing. They are not lying: it really is Islam that shapes their view of the world. But they are pragmatists inspired by the progressive values they discern in their faith, not ideologues scouring scripture in search of some ready-made blueprint.

One extreme optimist of this kind is Mr Fuller, that former CIA analyst. He calls political Islam (except in places where the Islamists have grabbed power by force) “the single largest, most vibrant, growing, widespread and active movement in the Muslim world in seeking to strengthen democracy, human rights, civil society and, generally, liberal economies.” But even in the Muslim world, this rosy view is

controversial, to say the least.

Emad Shahin, a political scientist at the American University of Cairo, is a believer: political Islam, he says, is “the wave of the future”. But just down the corridor, Bahgat Korany voices the misgivings of many Muslim intellectuals. “On the one hand, the Islamists are a vibrant force of civil society, an oppositional force with some semblance of a conceptual alternative. On the other, I have lots of questions about what sort of political system they are trying to establish. Plus I wonder whether this is the road to permanent democracy.” Some of the Islamists, he says, are too apt to cite religious text as all the authority they need, and not ready enough to admit the possibility of error.

A lot of non-Muslim scholars are a good deal more sceptical than this. Emmanuel Sivan, a professor at the Hebrew University of Jerusalem, argues that people like Mr Fuller, who think the Islamists are the progressives in Muslim societies, pay too much heed to what such groups say to outsiders and too little to what they say among themselves. Though there are liberal voices among the Islamists, says Mr Sivan, these are drowned out by the extremists. The liberals publish learned papers; the extremists have mastered the art of spreading their message far and wide by means of sermons and debates distributed on audiocassettes. Mr Sivan reckons that of the 400 or so tape-cassette preachers, none is a liberal.

It may not matter whether western scholars believe that Islamists are genuine democrats. It does matter what fellow Muslims think. This is because most Muslims say they want democracy. The same Pew survey in June that reported growing Muslim rage at America also found a strong appetite for democratic freedoms. A poll of some 50 countries—from kingdoms such as Jordan and Kuwait as well as authoritarian states such as Uzbekistan and Pakistan—found strong support for freedom of expression, freedom of the press, multi-party systems and equal treatment under the law. In some parts of the Muslim world, these values scored higher than in parts of central and eastern Europe.

But can you trust them?

Encouraging. But will Muslims who support democracy in theory support it in practice if they cannot trust the Islamists to abide by the rules of the game? Mr Sivan argues that by monopolising the opposition in Muslim countries the Islamists have, as it were, put the fear of God into the very middle classes which might otherwise be democracy's champions. Like Latin America's middle classes when Marxism was strong, they hesitate about taking a chance on fair elections, lest that should hand power permanently to the extremists. “The reason democracy has not penetrated Islam has nothing to do with some essential opposition from the religion,” says Mr Sivan. “It's not long since Catholics were looked upon in this light. Democratisation has failed to a large extent because of the radical danger: the fear that it will be one vote, one man, one time.” Will it?

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The law of man or the law of God?

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Islam and democracy

THE fear that a vote for Islamists would mean “one man, one vote, one time” is not something dreamt up by outsiders. It is voiced throughout the Muslim world. In 1991, the government of Algeria gave just this reason for cancelling the second round of an election in which an Islamist party, the Islamic Salvation Front, was poised to displace the National Liberation Front (FLN), which had ruled since independence. Once they grabbed power, said the FLN, the Islamists could never be trusted to give it up again.

This seems a bit rich, coming from a government that was not itself willing to give up power in a fair election. Arab politicians who complain that the Islamists are no democrats should be reminded that they are not democrats either. And it is clear that many things other than Islam—the arbitrary borders left by imperialism, the entrenchment of single-party states—have hindered the growth of democracy in the Muslim world. Still, those who argue that “Islam is the solution” need to confront the other possibility. Might Islam be the problem? Is something hard-wired in the faith incompatible with democracy?

The short answer is yes. Democracy is based on the idea that men make laws. Islam contains, in the Koran, a set of God-given laws, dictated directly to Muhammad and therefore not open to revision. Khaled Abou El Fadl, a specialist in Islamic law at the University of California, says a case for democracy that is presented from within Islam has to accept the idea of divine sovereignty. “It cannot substitute popular sovereignty but must show how popular sovereignty expresses God's authority, properly understood.”

That is obviously a formidable complication, which gives a lot of power to anyone who can claim some special authority to “properly understand”. However, it is not one beyond the wit of man to wriggle around. For it is no less obvious to Muslims than to other people that some of God's orders leave gaps to be filled in, and that others require interpretation. This opens the way for men to make plenty of rules for themselves. The Koran, for example, does not prescribe any particular system of government. And yet government requires rulers, who must be chosen by some method that is open to argument.

Modern states also require many more laws than are inscribed in the unalterable Koran. In fact only about 80 of the Koran's 6,000 verses lay down rules of public law, and not many of those have much application in the modern world. Much of what is loosely called *sharia* derives from other sources: the *sunna* (the teachings of the prophet); the *ijma* (the consensus of religious scholars); and the *qiyas* (legal reasoning). So here is ample room for interpretation (what Muslims call *ijtihad*). Even some explicit laws laid down in the Koran are routinely circumvented by Islamic judges. The Koran, for example, says pretty plainly that a thief should be punished by losing his hand. But the number of crimes requiring these so-called *hudud* punishments is small, and most Muslim countries with *hudud* laws on their statute books have found ways to ensure that the punishments are seldom if ever carried out.

Those who are willing to look for it, in other words, can find sufficient wriggle-room within Islam for the faith to co-exist with democracy. Some Muslim democrats go on to make a further, less plausible claim. By heroic extrapolation, they find an endorsement of democratic ideas in the Koran's fleeting references to consensus (*ijma*) and consultation (*shura*).

That is probably too much of a stretch. The required consultation is only with the Muslim jurists, not the people. Although plenty of the values associated with democracy—such as equality, justice and compassion—are to be found within Islam, the holy texts of this religion, like the other great religions, do not prescribe democracy. The best that can be said is that they do not altogether proscribe it. And even this is in contention. To Sayyid Qutb, remember, man must not be under the dominion of man. The blind sheikh, Umar Abd al-Rahman, who was implicated in the first attempt on the twin towers in 1993, has issued a *fatwa* banning all political parties, including Islamist ones. The simple fact is that there is no agreed-upon blueprint for politics in Islam.

For evidence that there is no blueprint, look somewhere surprising: Iran. For most of the two decades since Ayatollah Khomeini's revolution, it has seemed to epitomise the opposite of democracy. Khomeini imposed a doctrine known as *wilayat al-faqih* (rule by the jurist) under which the final arbiter of political power should be the cleric best qualified properly to understand (that phrase again) the true meaning of Islamic law and tradition. By—for him—happy coincidence, he it was who was deemed best qualified to be supreme leader. Though Iran's constitution allows for an elected president and Consultative Assembly, legislation must be vetted by a mullah-dominated Council of Guardians to make sure that it complies with Islamic law as they see it.

So make it up as you go along

This is hardly democracy as the West understands it. But is Iran proof that an Islamic state cannot be democratic? Arguably, what Iran really shows is how those who espouse the cause of political Islam are pretty much free—or pretty much forced—to make up what it is they mean by this as they go along. Although Khomeini did not just dream up the doctrine of *wilayat al-faqih*, the version he imposed was very much his own invention. The doctrine itself is by no means accepted by all Shia spiritual leaders. And it may not last even in Iran.

Right now Iran is divided between reformers led by the twice-elected President Muhammad Khatami and conservative mullahs who will brook no change that might weaken the power vested in the clerisy. It is possible that the conservatives will crush the democracy movement, or vice versa. But it is also possible that some middle way might be found. This is the hope of Noah Feldman, an American scholar and adviser to the American government. “Such an outcome”, he says, “would not only begin to solve the problems that Iran faces today without violent upheaval, but would also represent a model for other places in the Muslim world to emulate.”

Until then, political parties which claim that “Islam is the solution” will find it hard to describe the sort of political order they envisage creating, or to point to an admired example. Most prefer to be vague, dwelling on the inadequacies of the status quo. They all say an Islamic state would apply *sharia*. But *sharia* is not yet comprehensive and is subject to varying interpretation. God would be sovereign, of course, but who would actually rule? The answer depends on whom you ask. The pessimists may well be right to say that the Islamists are bogus democrats, interested only in one man, one vote, one time. But nothing in Islam itself necessarily makes it so.

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The problem of the umma

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For all the talk about worldwide Muslim co-operation, most Islamic politics is local

AP

Fadlallah advocates peaceful coexistence

MUSLIMS are said to have a problem with democracy. Do they also have a problem with nations? Princeton's Bernard Lewis argues that whereas the West sees the world as a system of nations subdivided in various ways, including into religions, Islam sees the world as a system of religions, subdivided in several ways, including into nations. This gives Islam a special, and potentially troubling, role in international relations.

Mr Lewis points out that Muslim states identify with one another in a way that non-Muslim states would nowadays find strange. There are no such things as summit meetings of Protestant states, nor is there a Buddhist block in the United Nations. Muslim governments, on the other hand, have built up what he calls “an elaborate apparatus” of consultation and co-operation that cuts across political and ideological differences. Fifty-six Muslim states have created the Organisation of the Islamic Conference, with permanent headquarters in Saudi Arabia.

All the same, this “elaborate apparatus” has yielded precious little actual strategic co-operation among Muslim states. Even in the Arab world, which is united by language, history and geography as well as by religion, the Arab League is a byword for fractious impotence. In the Gulf war of 1991, several Arab countries fought with America against Iraq. A shared religion did not prevent the Shia Arabs of Iraq from spending close to a decade at war against the non-Arab Shias of Iran. When America invaded Afghanistan to remove the Taliban, Pakistan—which had enjoyed the most intimate relations with the Taliban—ended up taking America's side. At the level of governments, in short, Muslim states tend to be guided, like other states, by what they see as their national interest rather than by some notion of Islamic solidarity against the unbelievers.

Of course, what is true of governments may not be true of individuals. In that respect, Mr Lewis is right that Muslims see in their religion a source of identity and fellow-feeling that is often stronger than nationalism. In part, this reflects the cobbled-togetherness of some of the Muslim states that emerged from colonialism. But it has a positive side, too. One of Islam's central messages is that the brotherhood of man surpasses tribal loyalties. Its universality is indeed one reason for Islam's continuing and powerful appeal. (To understand this appeal, read “The Road to Mecca” by Muhammad Asad, who was born Leopold Weiss, grandson of a rabbi.)

Solidarity and jihad

The brotherhood of man is no doubt a good thing. But loyalties that spill across borders make the world less orderly. To a certain cast of mind, the *umma*—the whole worldwide Islamic community of believers—is both a political and religious entity that must be defended by a *jihad* when it comes under infidel attack. This is not a new idea thought up by terrorists, though it has become part of their ideological vocabulary. It is an authentic part of the faith, rooted in the Koran and elaborated by Islam's medieval jurists.

Not just anybody is supposed to be able to declare a *jihad*; and not for just any reason. Muslim clerics who denounce Mr bin Laden's *jihad* against “Jews and Crusaders” say he had neither proper authority to declare war, nor just cause. But the concept of *jihad* exists. Islam's sympathisers cannot just wish it away by reminding people of its more common second meaning (personal striving), or by pointing out how few clerics endorse Mr bin Laden. There are influential clerics—such as Sheikh Yusuf Qaradawi, the

Qatar-based preacher—who say that Mr bin Laden's *jihad* was misconceived but who support *jihad* in other contexts, such as the Palestinians' *intifada* against Israel.

The notion of the *umma*, when it is connected to a perception that the *umma* is under attack and must be defended, underpins a good deal of Islamic terrorism. It is hardly a surprise, even if it is a mistake, that when some Muslims add together the conflicts in Palestine, Chechnya, Kashmir, India, Iraq, Afghanistan and so forth, they end up concluding that their co-religionists are everywhere under assault.

Individual Muslims do not have to reach this conclusion for themselves. Plenty of organised voices push them that way. And not all such voices are Muslim. It is by now ruefully acknowledged by America that its own successful exploitation of the concept of the *umma*, which in the 1980s was used to mobilise a *jihad* against the Soviet occupation of Afghanistan, produced a host of unintended consequences. Mr bin Laden was only one of many Arab fighters who flocked to Afghanistan to drive out the Red Army, and became elated by what they construed afterwards as proof that Islam could destroy a superpower. These Afghan veterans have popped up since in numerous *jihadi* struggles from Algeria to Chechnya.

America's support of the *jihad* in Afghanistan was at least a one-off. In two countries, however—Iran and Saudi Arabia—Muslim regimes have sometimes put the aspiration to stand up (often in competition with one another) for the rights and interests of the entire *umma* at the centre of their state policy. This in itself has done much to strengthen Muslim identification with the *umma*. After the 1973 oil-price shock made them rich, the Saudis spent billions outside their own country building mosques and forming Islamic associations. The Saudi ministry for religious affairs dished out millions of Korans in Europe, Asia and Africa, along with doctrinal texts written from the extreme perspective of Wahhabism. This, argues Gilles Kepel, changed the very complexion of Islam. “For the first time in 14 centuries, the same books (as well as cassettes) could be found from one end of the *umma* to the other as part of an identical corpus. Its very limited number of titles hewed to the same doctrinal line and excluded other currents of thought that had formerly been part of a more pluralistic Islam.”

Fanned by Saudi Arabia, and by the indignation most Muslims feel about the conflicts in Palestine and Iraq, the spirit of the *umma* is nowadays burning strong. And after September 11th, it would be folly to underrate the threat posed by the global Islamic terror networks that seek to exploit it. All the same, it is also possible to exaggerate the pull of the *umma*. This is because, for all its exceptionalism, the Islamic world is like the rest of the world in that a lot of its politics is local.

One way to understand this is to pay a call on Hizbullah. The Iranian-inspired “Party of God”, based in Lebanon, is close to the top of almost every western country's list of Islamic terrorist groups. It gained notoriety in the 1980s for taking western hostages, and for the 1983 suicide bombing that killed 241 American marines in Beirut. More recently, it burnished its pan-Islamic credentials by waging a successful guerrilla war against the Israelis occupying southern Lebanon. Some American security experts consider it a more dedicated and capable terrorist organisation than al-Qaeda. But is it to be seen as part of an Islamic Terror International, or are its interests more parochial?

Domesticating the wild ones

The visitor willing to be zigzagged to a Beirut safe house by armed men in a battered Mercedes can expect some fiery sloganeering—aimed mainly at Israel, which Hizbullah is happy to admit it intends to destroy—from Sheikh Naim Qasir, the organisation's deputy secretary-general. Following the elimination of Israel, he says, all the post-1948 Jews will have to return to their homelands. He also denounces America's invasion of Iraq.

But that, he says, is not Hizbullah's fight; it is for Iraqis to deal with. He scoffs at the suggestion that Hizbullah acts as an extension of Iranian foreign policy. As for Lebanon itself, “we call on Lebanon to accept Islam because Islam saved it [from Israel]. But we don't intend to impose this view on anyone. We propose our views but we accept the views of others.” A similarly mild view comes from Ayatollah Fadlallah, a Shia cleric with followers in Hizbullah, whom the CIA reportedly tried to assassinate in the 1980s. Far from espousing global *jihad*, he says he is thankful to the West for accepting so many Muslim refugees and letting them become citizens. The ayatollah has issued *fatwas* forbidding his followers in the West from hurting the citizens of their host countries.

It may be unwise to take at face value what you hear from Hizbullah, which has been accused of organising terrorist acts well beyond the Middle East. But the organisation does nowadays seem preoccupied with Lebanon itself. Since pushing out the Israelis, it has mounted the occasional raid across

the border: success against Israel is, after all, what makes it so popular at home. But its main objective is to win hearts, minds, votes and eventually power inside Lebanon. And its leaders know that they will fail at this if they provoke Israel or America to come storming back to Beirut.

The domestication of Hizbullah is but one example of a broader trend. Despite their claim to be supranational, argues Mr Roy, the French political scientist, most Islamist movements have been shaped by local circumstances. “Sooner or later, they tend to express national interests, even under the pretext of Islamist ideology.”

Mr Roy accepts that there are exceptions. A lot of *jihadis* in Pakistan feel that they are struggling on behalf of all the Muslims of South Asia. Many members of the Muslim Brotherhood operate—and think—beyond the confines of Egypt. But look on the other hand at how pragmatic Iranian foreign policy has been since Khomeini, how the Palestinian Hamas concentrates almost exclusively on the local struggle with Israel, or how swiftly the Bosnian Muslims got rid of foreign *jihadis* once Bosnia achieved independence from Yugoslavia. The PJD in Morocco, the Muslim Brotherhood in Egypt and Hizbullah in Lebanon share some views about the world. But their main aim is to change how things are in Morocco, Egypt and Lebanon. In the world of Islam, much as in Texas, the bulk of politics tends to be local.

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Islam in the West

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A possible fifth column, but also a bridge

IF MUSLIMS in the Muslim world identify strongly with one another, with whom do Muslims in the West identify? On one apocalyptic view of the post-September 11th world, the millions of Muslims who live in the West offer a ready pool of recruits for al-Qaeda and its sort, all the more deadly because of a superficial westernisation that enables them to blend into the local environment whilst preparing their dastardly plots. Their true allegiance, on this view, is with the *umma*, on whose behalf they will if necessary launch attacks on their host countries.

Though not falling for this caricature, Reuven Paz, an Israeli scholar, argues that Islamist movements are taking advantage of a generational change among western Muslims. Whereas the first generation of Muslim immigrants sought to merge into western society and was preoccupied with economic difficulties, the second and third generations have grown alienated. With generous help from rich Muslim countries they have built up “a wide range of Islamic infrastructures” inside western democracies, which could serve as the “backbone” of terrorist groups.

Well, yes, they could. Suspected al-Qaeda cells have after all been uncovered in Germany, France, Italy and Britain. The “American Taliban”, John Walker Lindh, got his early instruction in Islam from the Tablighi Jamaat, a global Islamic-awareness organisation with branches in the United States. A movement in Britain, al-Muhajiroun, pumps out *jihadi* propaganda and has said on its website that it wants to become “a fifth column” to prepare for “the worldwide Islamic revolution”.

How significant, though, are such disaffected souls and malevolent cells? A handful of Muslims living in the West have turned to terrorism, as have a handful of Christians, Jews, atheists, Marxists, Maoists, nihilists, animal lovers and greens. But the numbers are tiny given the size of the West's Muslim population: about 10m each in the European Union and the United States.

Western Muslims are, besides, anything but homogenous. Most in Germany are Turks; most in Britain hail from the Indian subcontinent. Of the 5m or so Muslims in France, Algerians, the largest group, make up well under 1.5m, with other large groups from Turkey, Morocco, Tunisia and sub-Saharan Africa. America's Muslim population is no less fragmented: Arabs, South Asians and African-Americans each make up about a quarter. It is surely folly to make any confident generalisation about the politics of such a diverse range of people, let alone predict a large-scale conversion to terrorism.

It would, however, also be wrong to pretend that the conflicts of the Muslim world stop when they bump into the West's borders. Europe in particular is very much part of the story of political Islam. It is, for one thing, a refuge: “Londonistan” has for many years been the haven, meeting place and publishing centre for many a displaced Islamist forced out of his own country. Europe is also sometimes a battleground. In 1989, when Ayatollah Khomeini condemned Salman Rushdie to death for blasphemy, British Muslims burnt Mr Rushdie's offending novel, the “Satanic Verses”, on the streets of Bradford. And in the mid-1990s the Algerian civil war spilled over into France.

Political Islam is alive in Europe in another sense. The generational change that worries Mr Paz has indeed given Islam a militant flavour. Young European Muslims, many without work and disaffected from their host societies, are more willing than their parents and grandparents were to use Islam as a rallying cry and to demand rights as Muslims. Islam has become so much a focus of social protest in France that in some of the downtrodden suburbs small numbers of non-Muslim youth have begun to convert.

In principle, this demand for rights as Muslims and not just as citizens is a potential problem. Countries with laws that insist, say, on the equal rights of women are not likely, and would be wrong, to deprive Muslim women of that right. But how many European Muslims really expect or demand special treatment of that sort?

France's self-inflicted wound

Not many. Quite often, European governments make problems for themselves. Right now, France is providing a prime example. Of all European countries, it is probably the one that frets most about the political demands of its Muslims. And yet this is not necessarily because French Muslims are especially demanding. Arguably, it is because of the French doctrine known as *laicité* that insists on an exceptionally rigid separation between state and religion. Group rights are frowned on, because the rights of man are supposed to be upheld without favour by the state.

Lately, this doctrine has caused such consternation in French Muslim politics that President Jacques Chirac set up a commission to review it, prompted by the unwelcome results of elections in spring 2002 to a new body, the Council of the Muslim Cult. The interior ministry had expected most votes to go to moderate community leaders. Indeed, the moderate rector of the Grand Mosque of Paris, Dalil Boubakeur, was appointed the council's boss even before the election. But when the votes were counted, it was the Union of Islamic Organisations in France (UOIF), a supposedly militant group with links to the Muslim Brotherhood, that did best.

Following the victory of these so-called “militants”, Nicolas Sarkozy, the French interior minister and the new council's inventor, gave warning that the new council would not be permitted to spread Islamic law. Mr Boubakeur of the Grand Mosque threatened to resign rather than preside over a body containing “fundamentalists” who, he said, wanted to restore the Islam of the Middle Ages and give *sharia* precedence over the laws of France. “We laboured hard [to create the council],” Mr Boubakeur explains. “But instead of giving birth to a beautiful child we got a wild animal.” Since the election, other French Muslims have created a Movement of Secular Muslims to counter the Islamists. The UOIF, avers a spokesman for this association, is “a party of fundamentalism”.

Perhaps. But in France, as in the Muslim world, the organisations denounced as “fundamentalist” deny being any such thing. Lhaj Thami Breze, the UOIF's president, says he is trying to be faithful both to Islam and to the French republic. His organisation distributes books and cassettes about Islam. But he says that Islam must adapt to France, not France to Islam. He is adamant that he neither expects nor demands the introduction of the *sharia*. And he says he is a fan of *laicité*.

Such denials are curtly dismissed by the UOIF's critics. “These groups talk in a double language,” says Mr Boubakeur. And yet the only concrete allegation they seem able to stand up against the UOIF is that it encourages young Muslim girls to wear the veil in school. This is controversial in France, where the political culture is allergic to the idea of group rights. Many other Europeans, scratching their heads in puzzlement, can be forgiven for asking, “So what?” In this fight, the French state seems determined to shoot itself in the foot.

None of the foregoing is intended to make light of the problems besetting Muslims in the West, or of the problems these fast-growing minorities might pose for the host countries. Like any big group of immigrants, Muslims have difficulties accepting the host culture and being accepted by it. Since the fleeting but eye-catching success in May 2002 of Pim Fortuyn's anti-immigration party in the Netherlands, Muslims have been made to feel uncomfortable in many European countries. But will Muslims in the West form a “fifth column”?

Traitors inside the gates

Some—including local converts such as Richard Reid, the British shoe-bomber, and José Padilla, the alleged American “dirty bomber”—already see themselves that way. More will doubtless be persuaded to do so by the radical foreign-trained imams of some of Europe's mosques. But there is little beyond police work (and training more imams locally) that the western democracies can sensibly do to influence these individual decisions. And in the meantime the danger posed by the terrorists should not obscure two big virtuous consequences of Muslim immigration to Europe and America.

One is that the sheer number of Muslims living as minorities in non-Muslim countries makes a nonsense of the simple notion that Islam and the West comprise separate geopolitical power blocks doomed to collide. Almost one in three of the world's Muslims (if you include the 133m in India alone) lives in a country where Muslims are a minority. As a result, Sheikh Fadlallah is not the only Muslim spiritual leader anxious to make sure that host countries will continue to provide a haven where his co-religionists fleeing poverty or persecution are free to practise their faith undisturbed. Muslims in the West, or in India, have

a powerful vested interest of their own in the safety, prosperity and continued tolerance of the non-Islamic societies in which they live.

Second, it is arguably in the West that some of the most contented Muslims live, and where much of the most creative Islamic thinking now takes place. The creativity does not arise only because Muslims in the West need a practical way to live among the infidels. It is also because Muslims are freer in the West than they are in much of the Islamic world.

In most Muslim countries the state persecutes Islamists. The liberal Islamists—those readiest to reinterpret Islam's texts and rules and adapt them to modern times—are often persecuted in their turn by the conservative Islamic establishment. Islamists in Europe and America, by contrast, are in general at liberty to say and write what they want. Not all of what they say and write is liberal. Some Muslim groups use the West as a haven from which to disseminate extreme and violent views. But there are liberal voices, and these, too, filter back through the *umma*, helping to build understanding with the West.

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Whose war is it anyway?

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The danger of blundering into somebody else's fight

AP

Purveyors of democracy to Iraq?

THIS survey opened by pointing out that small groups can produce big consequences. Had 19 Arabs not done what they did on September 11th 2001, America would certainly not have invaded Afghanistan and would probably not have invaded and occupied Iraq. These two American-led wars will in turn have consequences of their own for the larger relationship between Islam and the West. What are they likely to be?

Those polls from the Pew research centre show that an immediate consequence has been to blacken America's reputation among Muslims in many parts of the world. But much depends on what happens next. Nobody has high expectations of Afghanistan, a troubled place even before falling victim to the cold war. Iraq is another matter. It is, on the face of it, the perfect test case: a test, simultaneously, of the possibilities of Muslim politics and the credibility of American intentions. Can this former dictatorship become the liberal democracy the Americans want, and so serve, as George Bush says, as an inspiring example to the rest of the region? Or does the idea of making it such a democracy fly in the face of Arab political culture, and perhaps of Islam itself?

The early months have not been kind to anyone expecting a Jeffersonian democracy to spring fully formed from the ashes of Baathist dictatorship. Returning exiles such as Ahmed Chalabi who had lived in the West and speak the language of secular democracy have seemed out of touch with the man in the street. The strongest organised political force in Iraq turns out to be the Shia seminaries in Najaf, speaking in the name of Islam, not of any secular doctrine. This has led some onlookers to conclude that Iraqi democracy is a forlorn hope; that America has swept away a secular dictatorship only to pave the way for the creation of another Iranian-style Shia theocracy hostile to the West.

That would indeed be an irony. But it is no certainty, nor even what all of Iraq's preachers and clerics say they want. In a sermon in May at the Great Mosque in Fallujah, a town that has become notably hostile to the Americans, Sheikh Jamal Shakir al-Nazzal called on his flock to “return to Islam”, blamed Iraq's woes on Marxism and tyranny, and warned the Americans not to act with “corruption and repression”. But he also asked the Americans to bring democracy, “so that the Iraqi people will live in security and comfort and will elect a good government that will give rights to every human being”.

This hardly suggests an Iraq inimical to the very idea of democracy. Most Iraqi Muslims are Shia, a creed that says no human sovereign can be fully legitimate until the return of the twelfth, “hidden” imam. The bomb a fortnight ago in Najaf that killed Mohammad Baqr al-Hakim, one of the country's most senior Shia clerics, has left Shia politics in turmoil. But most Shia clerics recognise the need to reach out to secular Shias as well as to the Sunni, Kurdish and other minorities. In the debate on how to create a new government, it is they who want a constitutional convention to be elected, not appointed. Democracy is at least a possible future for Iraq.

Still, too much can be made of the Iraqi example. If democracy does not take root there, it will not necessarily be Islam that prevents it. The fact that fragile democracies are being planted now in countries as different as Bangladesh, Indonesia, Turkey and Malaysia—to say nothing of the democratic movement now struggling to cast off the “clerisocracy” of Iran—has shown that Islam itself is not invariably democracy's enemy. Democracy's failure to grow in Islam's Arab core may have less to do with the faith and more to do with something much simpler, such as the refusal of the men in power to yield or share it.

By the same token, not too much should be read into the example of Iraq even if it does succeed in becoming a democracy. The main obstacle to would-be democrats in the Arab world is not the absence of an example but the refusal of the existing regimes—Dr Abul Fotouh's “crooks and thieves”—to get out of the way. In Iraq, America chose for various reasons to remove the resident crook and thief, but in other Arab countries the local people will have to find a way to do this themselves. This creates an awkwardness. Though America says it wants to be democracy's champion, realpolitik demands that it is also often the paymaster and protector of unlovely regimes.

Since September 11th, some Americans have therefore proposed a simple solution: switch sides. Since democracy is a good thing, supporting the democrats in the Muslim world must by extension be good for relations between Islam and the West. And peoples who share democratic values are surely less likely to fall out.

Democracy's false panacea

This proposal is too simple, for two reasons. Democracy is more like a set of rules than a set of values. The voters of a democratic Muslim country might very well support policies and values that conflict with those of the West. Muslim voters might, for example, be less willing than their unelected leaders to live with the state of Israel, the survival of which is an immovable plank of American policy. Or—as the Iraq war showed—even friendly democracies like Turkey's might put solidarity with the *umma* above helping in what America calls its war on terrorism.

As for values, the sort of society that Islamists might build once they had been duly elected might not delight everybody in the West. Islamist parties may very well be “progressive” in the sense that they want a chance to win power democratically. But such people are also often extreme social conservatives. In the bits of Malaysia run by the PAS Islamist opposition, there are moves to enforce *hudud* laws—the chopping-off of hands. Morocco's Adl wal Ihsane and PJD summoned hundreds of thousands of marchers to the streets of Casablanca to block a reform of family law that would have given women more equal rights. Though it can be argued that it is tradition rather than Islam that has disadvantaged women in many Muslim lands, this is a tradition quite a few Islamists would like to uphold.

The second complication about switching sides is more basic: how to identify the democrats. It is not possible to tell whether it will be one man, one vote, one time by delving into theology and asking whether Islam itself is in essence democratic. In the Muslim world, democratic and undemocratic forces are in conflict with each other. The faith is invoked on both sides of the quarrel, but nobody in this popeless religion has the authority to settle the argument one way or another. Nor does it make much sense to try to predict which side will prevail. Democracy will presumably succeed in some Muslim countries and fail in others.

So what is a poor superpower to do? Since the twin towers, many people have said that it would be mistake for America to see all foreign policy through the lens of the war on terrorism. They are right. But defending oneself against terrorists is at least a necessary and realistic policy that is also easy to explain and justify. It would be a much bigger mistake for America to view foreign policy through the lens of some imagined collision with Islam itself.

For all the appeal of the *umma*, the billion-plus people who make up what this survey has of necessity abbreviated as the “Islamic world” are not one thing, with one point of view, preoccupied by their relations with the West. Muslims live in a miscellany of countries, where modernity and tradition, reason and faith have been in tumultuous contention at least since the 19th century. Even after September 11th and America's invasions of Afghanistan and Iraq, the main preoccupation of Muslims continues to be the state of the Muslim world, especially of their own countries, not their relations with the West.

That is not to say that America can avoid defending itself from the likes of al-Qaeda. Nor should it be shy to speak up for the system of democracy that has served Americans so well. But it should beware of stepping into somebody else's argument about the true meaning of Islam, and of assuming that democracy must be Islam's opposite. These are arguments for Muslims to resolve, in their own way.

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Media regulation in America

The politics of big media

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AP

Who will win the political war over the ownership of media in America?

"MEDIA chaos" is how Michael Powell, chairman of the Federal Communications Commission (FCC), summarises the state of his agency's efforts to deregulate America's media industry. It is hard to disagree. It is barely three months since the media industry's regulator announced liberalising changes to its rules limiting the freedom of firms with public-broadcasting licences to buy other media companies. But Mr Powell now finds himself in a fierce battle with politicians, two fellow commissioners and the courts.

Mr Powell does at least retain the support of President George Bush, however, who could exercise for the first time his right to veto legislation in order to rescue Mr Powell from his enemies in Congress. This week Rupert Murdoch, boss of News Corp and bogeyman to the rule-change opponents, put the odds on a veto at 60%.

Most of the fuss concerns three rule changes in particular. The first would allow America's four big networks—CBS, NBC, ABC and Mr Murdoch's Fox—to own local stations together capable of reaching 45% of the national audience. Currently, they are limited to 35%. (Even 100% might not cause harm provided viewers could also watch plenty of other stations.) The second change would end the ban on a single firm owning both a newspaper and a TV station in the same local market. The third would allow a firm to own three TV stations instead of two in bigger markets.

On September 3rd, judges halted the implementation of the rule changes so that they could be properly reviewed in court. FCC officials say this could take six to nine months, or more. Claiming they have mergers in the pipeline, big firms such as News Corp, Viacom and Disney are up in arms—and will be even more agitated if, as seems likely, later this month the Senate follows the House of Representatives in indirectly blocking one of the changes by forbidding the FCC from spending any money to implement it.

Guns, women and priests

Mr Powell credits his opponents for a well-run campaign. Shelving their ideological differences, pressure groups from the National Rifle Association (NRA) to Code Pink: Women for Peace and the Conference of Catholic Bishops joined the FCC's two Democratic Party commissioners in denouncing rule changes which they said would only increase the already oppressive powers of media conglomerates.

But Mr Powell is refusing to change his rules, and he doubts that his opponents represent the will of the people. There has been lots of hostile mail, he says, but most of it was from the voluble NRA. Congress, which in 1996 instructed the FCC to review its ownership rules with a liberalising eye, has every right to change its mind, says Mr Powell. But he doubts it has. The rule change that Congress may block, perhaps triggering Mr Bush's veto, is the loosening of the national audience cap. Mr Powell views this less as a vote against his policies than as an example of politicians “punishing big media”. Congress voted in favour of lifting the FCC ban on owning both a TV station and a newspaper in the same local market. He also expects the courts to allow the changes to go ahead, once they have been reviewed.

Mr Powell's changes were meant to end a legal fight that began with the passage of the 1996 Telecommunications Act, in which Congress required the FCC to review its media rules every two years, with the goal of scrapping unnecessary ones. After its first two reviews, the FCC made no changes. But the courts then found that the FCC had not properly justified its decisions and scrapped some rules which they thought were impossible to justify. Opponents of media deregulation challenged these rulings, with some complaining about the follies of “conservative judges”.

With the FCC's third biennial review, which began 23 months ago, Mr Powell (son of the secretary of state, Colin Powell) hoped to convince the courts that his strategy was based on fact and reason. His opponents claim that the power of big media firms is rising. Mr Powell says the opposite. With the growth of cable, satellite and digital media, the number both of media outlets and of owners has increased almost everywhere in America. After the success of Mr Murdoch's Fox, there are now four rivals instead of three even among the big TV networks. “We have facts,” claims Mr Powell. “They have none.”

Since the FCC had written its existing rules in 1941-75, the correct response to these developments, it argues, was to loosen them. Even so, the agency insists that its revisions still reflect its three goals—promoting diversity, localism and competition—which, it says, come from its duty to ensure that users of the public airwaves uphold the “public interest”.

As well as disputing the FCC's factual findings, opponents claim that, having already given up regulating what content firms broadcast, the FCC is now neglecting to enforce the public-interest requirement. A thick book of “behavioural” rules once aimed to ensure that broadcasters aired a balanced spread of views, ascertained local demand for local content and helped to keep bad language, sex and violence off the airwaves, says Michael Copps, one of the two Democrat-appointed FCC commissioners. He wants the FCC to return to such policies, starting by making licence renewals more testing than the current rubber-stamping exercise. Most pressure groups opposing Mr Powell echo Mr Copps, albeit in incompatible ways. The bishops want more of the public spectrum for Catholic views and broadcasting; the NRA wants to end the tyranny of the liberal media, and a fair hearing for its defence of the right to bear arms, and so on.

The FCC denies that it has neglected its responsibilities, although Mr Powell agrees that it has, over the years, retreated from regulating most content. Moreover, he says, a return to content regulation would be “dangerous”. Under the old system, he says, broadcasters shied away from controversial topics. With more choice, government need not take so much interest in what individual broadcasters put out. Government regulators are in any case in no position to judge the correct balance of views and content, and reregulating content would drive viewers to alternative media, such as cable TV. On this last point, Mr Copps agrees. “We can't solve the indecency problem without cable at the table as well,” says his spokesman. That would be a most radical change.

Big media firms make an easy target, so Mr Powell now hopes to shift the debate on to other ground. He suspects that calls to reregulate content will not prove so popular. Challenging his enemies to drop the nonsense about media gigantism, Mr Powell launched last month a “localism in broadcasting” initiative. Among the topics he proposed for debate: whether the FCC should return to vetting broadcasters for the quality of their local content.

But the bishops, Code Pink and the NRA have tasted victory and may not easily be shifted. And with the race for the White House now begun, the Democrats would love an unpopular presidential veto from Mr Bush. Media firms should expect more uncertainty.

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Media regulation outside America

Turning it off

Sep 11th 2003
From The Economist print edition

Lighter regulation is this season's hit

IN HIS battle to liberalise America's rules on media ownership, Michael Powell of the FCC can take comfort from knowing that, globally, he is not alone. Many developed countries are taking a critical look at their media laws and concluding that they are either out of date or too restrictive. Elsewhere, too, the effort to deregulate faces fierce political opposition.

In Britain, a new law this year lifted a bar on non-European ownership of British broadcasters, but was passed only after a battle and the insertion of a public interest “plurality test”. Japan is considering a relaxation of a law that bans a single firm from owning several TV stations. Australia's government tried to ease limits on media ownership, both within the country and by foreigners, only to be thwarted by rival politicians this summer.

The laws that countries use to control their media industries differ in important ways. American media law, for instance, is far more concerned with preserving local, regional content than that of other countries (except, perhaps, France). America's limit on foreign ownership of its media is more protectionist than most of Europe's. Some countries, America included, have laws that address media ownership across TV, newspapers and radio; others, such as Germany, look at each in isolation. The European Commission once hoped that it could harmonise media laws in the European Union, but has now largely given up.

Despite these differences, most governments use three sorts of law to oversee the media. There are pro-competitive antitrust rules that apply to every industry. Most countries also have laws that relate specifically to the ownership of media outlets, aiming to ensure that people have access to a diversity of political and cultural viewpoints. Lastly, they have laws that directly regulate media content. EU countries, for instance, must abide by rules that specify how much of broadcast content is produced in Europe rather than by, say, Hollywood.

Slowly but surely, says an executive at one international media firm, antitrust laws are becoming the preferred way to regulate media. Competition alone, the theory goes, should provide enough diversity of viewpoints without the need either for specific ownership caps or old-fashioned, paternalistic content rules. New Zealand, Sweden and Finland now have no limits on media ownership, either domestic or foreign. While antitrust rules on their own can produce many viewpoints, however, there is no guarantee that they will. So most countries will probably keep some specific media rules.

Most media regulation, both in America and elsewhere, has to do with old media, meaning radio, terrestrial TV and newspapers. A powerful spur for deregulation, as Mr Powell argues, is the fact that new media outlets—the internet, cable and satellite TV—have greatly increased diversity. Some regulators suspect that strict ownership rules are ineffective in any case. Germany, for instance, knowing how the power of Alfred Hugenberg, a media baron, aided the rise of Hitler in the 1930s, has been particularly determined to avoid concentration of media ownership. Yet its media law has failed to stop two families—Bertelsmann and Kirch—controlling the country's private TV market, complained a German delegation to a discussion of media mergers at the OECD in May. In Italy, a whole host of media ownership rules has not stopped the prime minister, Silvio Berlusconi, exercising excessive control over Italian TV and the press through Mediaset, his own company, and through RAI, the state-owned broadcasting body.

As for developing countries, any media laws that exist are often just for show; political influence and money count when licences are granted. World-wide, a vast chunk of the media is still owned or run by the state. A study by America's National Bureau of Economic Research in 2001 found that, in 97 countries it examined, the state controlled on average nearly one-third of newspapers, 60% of TV

stations and 72% of top radio stations. Ownership by the state: now there is a form of media ownership that should be banned.

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East German products

Ostalgie

Sep 11th 2003 | FRANKFURT
From The Economist print edition

A wild repackaging of German history

ANOTHER bubble may be about to burst: the craze for products and brands that were the hallmark of the former East Germany. *Ostalgie* (nostalgia for the east) is all the rage. Former citizens of the old Deutsche Demokratische Republik (DDR) are big buyers of the packaged foods and clothing that quickly vanished from the shelves after unification in 1990. They want some of that lost world back, kidding themselves that it was a sort of Utopia.

Many former West Germans have caught the nostalgia too. As well as the popularity, now replicated abroad, of “Goodbye Lenin”, a film fondly looking back at the fall of the Berlin Wall, DDR–inspired television shows have swept the nation. The latest, launched on September 3rd, features Katarina Witt, East Germany's former Olympic ice-skating champion and Henry Maske, a boxing world champion.

The nostalgia wave has spawned scores of websites offering thousands of former East German products. Popular items include gherkins from the Spree forest and sausages from Thuringia, as well as Rot-Weiss toothpaste, Spee washing powder and chicken-shaped plastic egg cups in various colours. Clothing bearing DDR symbols has become the height of fashion, not just a tourist souvenir. Trabant cars are available over the internet, but T-shirts featuring the “Trabi” appeal more than the actual vehicles. The favourite *Ostalgie* icon of all is the little green man (signifying “walk”) on pedestrian traffic lights. In the mid-1990s, an early *Ostalgie*-retailer, mondosarts.com, fought plans to reshape him to comply with European Union standards, winning him a reprieve in east Berlin and the eastern state of Saxony-Anhalt. Mondosarts (named after Mondos, an East German make of condom) sells clothes featuring the little man—and will even supply an entire traffic light, cast from the original mould, for €235 ($263).

Most *Ostalgie* businesses are small, but OssiVersand, a mail-order food retailer near Leipzig, has hit problems with over-expansion. With 30,000 customers on its books and a commitment to publish 75,000 catalogues twice a year, it is losing money even as sales soar. If it cannot find a partner to help finance and handle Christmas orders, it will have to close at the end of the month, says Gerhard Franz, its boss.

Still, he insists that the taste for eastern goods is not a passing fad. West Germans are beginning to discover eastern products whose only handicap since unification has been poor marketing and low customer expectations. Thuringian sausage, for example, tastes much better than any western rival, says Mr Franz, a Bavarian who moved east 13 years ago.

Maybe. But there is only one eastern brand, Rotkäppchen sparkling wine, that has really made it big in the west—mainly because it took over Mumm, a hallowed West German label. The DDR shows on TV are punctuated by advertisements for western, not eastern, products.

Is it good news that the East German look—blue tracksuit and leather “Jesus” sandals—is now chic enough even for young *Wessis* (West Germans)? It is certainly not politically neutral, says Jörg Davids, co-founder of Mondosarts, but an example of Germans coming to terms with their accident-prone past. The little traffic-light man may be helping to free Germans from the collective guilt that many still feel, which is all to the good. And *Ostalgie* may also be a sign that the gulf in self-confidence between easterners and westerners is closing in an ambiguous way: the *Wessis* have become a lot less snooty about their own fashions and economic prowess.

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Shipping

Flags of peace?

Sep 11th 2003
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Shipowners and unions try to resolve a dispute over flags of convenience

Sailing conveniently into the sunset

A FILIPINO seaman earns $1,300 a month. So does a Pole, a Ukrainian or an Indian. Even Chinese seamen are entitled to earn more than doctors or accountants back home. These seamen could not earn half as much on their own countries' national-flag ships, but can on a ship flying a flag of convenience. That is because they are covered by a unique global union agreement, thanks to an intriguing process that took a new turn this week.

After the second world war, many shipowners switched the registration of their vessels to flag-of-convenience countries such as Liberia and Panama to avoid taxes and high labour costs. Unions in the rich world fought back. Their campaign, run by the London-based International Transport Workers Federation (ITF), began in 1948.

ITF boycotts, assisted by powerful dock unions, failed to drive ships back to their own national flags, but they did gradually prompt a growing number of shipowners to sign crew agreements at rates determined by the federation. By 1997, around half of the world fleet flew a flag of convenience, and paid seamen the ITF rates.

This partial peace ended in 1997, when the federation declared a 17% pay rise for able seamen, to take effect in 2001. Shipowners, especially in Asia, were furious. A new employers' group, the International Maritime Employers Committee, was formed. Talks with the ITF in 2000 ended with big concessions to employers, including Exxon, Shell, ChevronTexaco and P&O. The 17% rise was staggered over four years. Then, after the fall in freight rates that followed the September 2001 terrorist attacks, the unions also accepted employers' calls for a pay freeze, on condition that more owners joined pay talks.

That has now happened: Japanese shippers have brought nearly 1,000 ships and 18,000 seamen into the talks. A new bargaining forum set up by the ITF and IMEC held its first meeting in Singapore on September 11th. The top priority for the owners as talks progress is an overhaul of the system of basing pay rates on a deckhand position. This grossly underpays skilled officers. For their part, the unions want longer contracts than the current standard ten months.

Also on the table: the compulsory payments made by shipowners into an ITF welfare fund for shipworkers. These now work out at around $20 per crew member per month. The ITF justifies this levy by saying it provides a safety net for exploited seafarers, financing charity work. But shipowners complain that the money just sits in the federation's coffers. Shipowners hope that, if they do not succeed in getting rid of the payments by negotiation, a new convention on seafarers' rights being drafted at the International Labour Organisation, a United Nations body, will put an end to the scheme.

With its rush into flags of convenience in search of low wages and taxes, shipping was a pioneer of globalisation. Will the attempt by ship unions and employers to fashion a worldwide pay settlement also be a pioneering act of globalisation?

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Mobile phones in Iraq

The victor divides the calls

Sep 11th 2003
From The Economist print edition

A war over mobile phones in Iraq

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IRAQ may have old, failing water and electricity supplies, but it will soon have three shiny new mobile-phone networks. The Coalition Provisional Authority now running Iraq is about to award licences to operate a network in each of three regions—a central area around Baghdad, one in the south-east around Basra, and another in the north. After several delays, licences are expected to be awarded soon to three of the 36 international consortia that submitted bids in July and August.

Mobile-phone networks are comparatively quick and easy to set up, so the winners should be among the first firms to turn a commercial profit in Iraq, rather than subsisting on money from coalition governments. So competition has been stiff. Everyone from Alcatel, a big French equipment maker, to Zagil Wireless, a new Iraqi-led consortium, is taking part.

The licences will be valid for only two years, says James Smith, a spokesman for the coalition authority. A new Iraqi government will then decide whether to renew them. Mr Smith expects that service will be available by January. As each operator meets service benchmarks, it will be able to compete in the other two regions.

The bidding is not entirely open. The authority has excluded consortia that are more than 10% state-owned (up from an initial 5% limit). This has limited the participation of many of the world's largest operators, including Orange, of France, T-Mobile, of Germany, and several Middle-Eastern operators, which are partially state-owned. Some observers believe this restriction is intended to bias the decision in favour of American firms.

The competition is not just that between companies, but also between two network standards. The first, GSM, was pioneered in Europe and is now used in over 80% of the world's networks, including some in America. But a political campaign in America, led by Congressman Darell Issa, has pushed a rival American technology called CDMA. He has tried to disparage GSM with dubious claims—that it was originally dreamed up by French engineers and that it would favour European equipment makers. *Quelle horreur*.

The coalition authority has not specified which technology should be used, other than to say that roaming between the three networks must be possible. Since most bids are likely to be based on GSM, and handsets that allow roaming between CDMA and GSM networks are not yet commercially available, GSM is expected to prevail. Besides, American troops and relief workers in Baghdad are already using a GSM network operated by MCI, a bankrupt American telecoms firm.

The coalition authority's decision to exclude Iraqis and foreign journalists from this network has provoked widespread resentment. Everyone, including the authority, now wants to get the new networks established as quickly as possible.

The evidence from other war-torn countries is that the new networks will become profitable within months, even if the current unrest in Iraq continues. In 1999, MSI Cellular, an African mobile operator, rapidly achieved profitability in Sierra Leone—in the midst of a civil war.

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Electricity in China

In demand

Sep 11th 2003 | BEIJING
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Power supply is failing to keep up

JUST a few years ago, China was still worrying about a glut of electricity. But in the past year, especially this summer, the shortages that plagued the country until the late 1990s have returned with a vengeance. Some 19 of China's 31 provinces and municipalities, including the most dynamic economically, are rationing power. Next year may be even worse.

Soaring demand and an overheating economy are partly to blame. In the first half of this year, China's GDP grew by 8.2%—despite the SARS virus. Electricity demand rose by 15% in the same period, led by power-hungry industries such as steel and aluminium. Unusually hot summer weather, plus droughts in parts of the country, added to the problem. Hydroelectric power stations are suffering from a lack of water; air-conditioners (cheapened by price wars) are straining overburdened grids. A state-run newspaper, the *21st Century Business Herald*, reported that some 200 steel, fertiliser and other factories in coastal Jiangsu Province had simply been closed down for the summer. Four-day working weeks have become commonplace in power-starved provinces.

The real blame, though, goes to bad planning and the sluggish pace of reform in the power sector. Despite recent moves to boost competition, it is still largely controlled by the state and ignores market forces. In the late 1990s, central government decided to slow new investment in power generation in order to reduce overcapacity. It forecast an annual increase in electricity demand of less than 6% in 2001-05. But power demand rose by over 11% in 2001, and by over 10% last year. The government is now frantically approving new capacity—but it will be three or four years before this new power comes on stream.

The building of new power stations would have accelerated sooner but for investors' uncertainty about the direction of power-sector reform. Scott Roberts of Cambridge Energy Research Associates, a consultancy, says that domestic investors are now starting to share the older fears of foreign power firms about the political risk of future regulatory changes.

Last year, the State Power Corporation, which controlled the grid through provincial subsidiaries as well as owning half of China's generating capacity, was broken up into five national generating companies. The grid was given to two independent companies, thus separating it from generation for the first time. An electric power regulatory commission was also created. As well as these upheavals, investors have been scared off by proposed, but as yet uncertain, changes to the tariff structure for electricity supplied to the grid and impending large-scale hydroelectric projects. These include the controversial Three Gorges dam, which recently began generating. The on-off initial public offering of the dam's shareholder vehicle, China Yangzi Power, has added yet more uncertainty.

The reforms have long been needed. Changes to the tariff structure are supposed to make generators compete with one another. Alas, the government has yet to implement them, as it seems to fear that market prices might be either too low to attract new investment or so high that they cripple the grid companies. At least on the demand side there are signs of genuine change, with different rates being introduced for peak and off-peak usage. But Mr Roberts notes, this is an industry that is “still learning to send market signals”.

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Open-source software

Microsoft at the power point

Sep 11th 2003
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Governments like open-source software, but Microsoft does not

Get article background

IN MAY, the city of Munich decided to oust Microsoft Windows from the 14,000 computers used by local-government employees in favour of Linux, an open-source operating system. Although the contract was worth a modest $35m, Microsoft's chief executive, Steve Ballmer, interrupted his holiday in Switzerland to visit Munich and lobby the mayor. Microsoft even dropped its prices to match Linux—a remarkable feat since Linux is essentially free and users merely purchase support services alongside it. But the software giant still lost. City officials said the decision was a matter of principle: the municipality wanted to control its technological destiny. It did not wish to place the functioning of government in the hands of a commercial vendor with proprietary standards which is accountable to shareholders rather than to citizens.

Worryingly for Microsoft, Munich is not alone in holding that view. Across the globe, governments are turning to open-source software which, unlike proprietary software, allows users to inspect, modify and freely redistribute its underlying programming instructions. Scores of national and state governments have drafted legislation calling for open-source software to be given preferential treatment in procurement. Brazil, for instance, is preparing to recommend that all its government agencies and state enterprises buy open source.

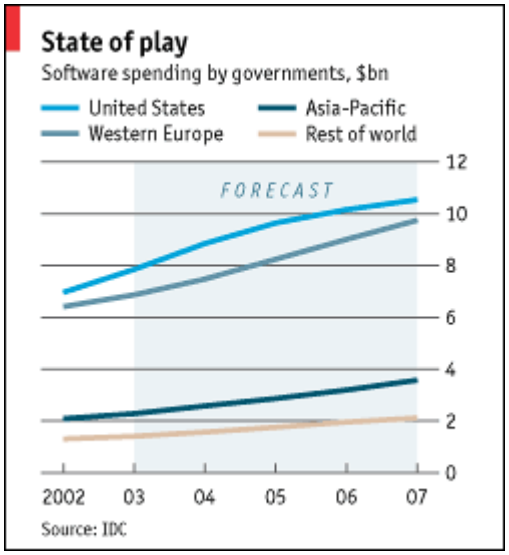
Other countries are funding open-source software initiatives outright. China has been working on a local version of Linux for years, on the grounds of national self-sufficiency, security and to avoid being too dependent on a single foreign supplier. Politicians in India have called on its vast army of programmers to develop open-source products for the same reasons. This month, Japan said it would collaborate with China and South Korea to develop open-source alternatives to Microsoft's software. Japan has already allocated ¥1 billion ($9m) to the project.

Why all the fuss? Modern governments generate a vast number of digital files. From birth certificates and tax returns to criminal DNA records, the documents must be retrievable in perpetuity. So governments are reluctant to store official records in the proprietary formats of commercial-software vendors. This concern will only increase as e-government services, such as filing a tax return or applying for a driving licence online, gain momentum. In Microsoft's case, security flaws in its software, such as those exploited by the recent Blaster and SoBig viruses, are also a cause of increasing concern.

Government purchases of software totalled almost $17 billion globally in 2002, and the figure is expected to grow by about 9% a year for the next five years, according to IDC, a market-research firm (see chart). Microsoft controls a relatively small part of this market, with sales to governments estimated at around $2.8 billion. But it is a crucial market, because when a government opts for a particular technology, the citizens and businesses that deal with it often have to fall into line. (In one notable example, America's defence department adopted the internet protocol as its networking standard, forcing contractors to use it, which in turn created a large market for internet-compliant products.) No wonder Microsoft feels threatened—the marriage of open-source software and government could be its Achilles heel.

Policymakers like open source for many reasons. In theory, the software's transparency increases security because “backdoors” used by hackers can be exposed and programmers can root out bugs from the code. The software can also be tailored to the user's specific needs, and upgrades happen at a pace chosen by the user,

not the vendor. The open-source model of openness and collaboration has produced some excellent software that is every bit the equal of commercial, closed-source products. And, of course, there is no risk of being locked in to a single vendor.



That said, open-source is no panacea, and there are many areas where proprietary products are still far superior. Oracle, the world's second-largest software company, need not worry (yet) about governments switching to open-source alternatives to its database software. But Microsoft is vulnerable, because an open-source rival to its Windows operating system exists already, in the form of Linux.

If Microsoft is indeed squeezed out of the government sector by open-source software, three groups stand to benefit: large consultancy firms and systems integrators, such as IBM, which will be called in to devise and install alternative products; firms such as Red Hat or SuSE, which sell Linux-based products and services; and numerous small, local technology firms that can tailor open-source products for governmental users.

As a result, the company has been fighting back. Microsoft and its allies have sought to discredit open-source software, likening its challenge of proprietary ownership to communism and suggesting that its openness makes it insecure and therefore vulnerable to terrorism. The firm also created a controversial slush fund to allow it to offer deep discounts to ensure that it did not lose government sales to Linux on the basis of price. And Microsoft has paid for a series of studies, the latest of which appeared this week, which invariably find that, in specific applications, Windows costs less than Linux.

More strikingly, Microsoft has been imitating the ways of the open-source “community”. Last year, the firm launched a “shared source” initiative that allows certain approved governments and large corporate clients to gain access to most of the Windows software code, though not to modify it. This is intended, in part, to assuage the fears of foreign governments that Windows might contain secret security backdoors. Microsoft has also made available some portions of the source code of Windows CE, which runs on handheld PCs and mobile phones, to enable programmers to tinker with the code. Tellingly, this is a market where the company is a straggler rather than a leader.

Jason Matusow, Microsoft's shared-source manager, says that developing software requires leadership and an understanding of customer needs—both areas where proprietary-software companies excel. As for proposed legislation that would stipulate one type of software over another, it is anti-competitive and could leave users hamstrung with products that are not the best for their specific needs, says Robert Kramer, executive director of the Initiative for Software Choice, a Microsoft-supported lobby group. Microsoft will advance these views next week in Rome, where it is hosting the latest in a series of conferences for government leaders. But the signs are that many of them have already made up their minds.

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Face value

The man who gave too much

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Alberto Vilar and the perils of philanthropy

AP

THE luxurious Manhattan apartment of Alberto Vilar was not, after all, auctioned off on September 10th by Citibank. The sale, which was cancelled the day before, had been scheduled to take place in the rotunda of the State Supreme Court building, to raise funds to offset a $5m debt incurred (and now, apparently, refinanced) by the sometime superstar tech investor and prominent philanthropist. Alas, the planned auction had already caused newspaper speculation about Mr Vilar's alleged “hard times”, adding to a year or so of rotten publicity about the finances of a man who, ironically, is in the public eye largely because he has been far too generous.

A Cuban who came to America to study in 1960, aged 19, Mr Vilar made his fortune as co-founder of Amerindo, a fund management firm, by betting early on firms such as Microsoft, Yahoo! and eBay. He then threw himself into an activity that has been expected of rich American businessmen at least since 1889, when one of them, Andrew Carnegie, wrote a famous essay on “Wealth”. He argued that, not least to stave off social unrest, accumulators of great wealth should use it “for the common good”. The rich man's goal—which, if some of the wilder speculation about his finances is to be believed, Mr Vilar may achieve somewhat sooner than Carnegie advised—should be to spend every last penny on good causes by the end of his life. Indeed, Carnegie even advocated that the state should impose death duties in “condemnation of the selfish millionaire's unworthy life”.

It is striking that wealthy Americans, including the most avowedly capitalistic, are usually far more active in philanthropy than their peers in Europe and Asia—and not just because they get bigger tax breaks for charity. Giving is often a matter of pride for an American businessman, even a source of socially productive rivalry among the rich. Sandy Weill of Citigroup is often cited as a classic example of a boss who saw philanthropy as yet another opportunity to prove himself the best. He has given and raised huge amounts of money for Carnegie Hall, the New York concert venue originally endowed by the great steel magnate. Whatever his motives, Mr Vilar quickly rose into the big league of philanthropists. By late 2001 he had pledged some $258m to support education, medicine and, above all, opera. The latter has been his greatest love. Even though opera does not strictly meet Carnegie's definition of a worthy cause—something from which “the masses reap the principal benefit”—plenty of opera goers were grateful. Mr Vilar also berated fellow bosses for not matching his reckless largesse, even criticising the world's richest man, and now biggest philanthropist, Bill Gates, for not giving “away one damn penny until he was worth $80 billion”.

But in late 2001, over a year after the tech bubble burst, rumours started that Mr Vilar was not meeting all his pledges. In August 2002, the Los Angeles Opera cancelled a production of Prokofiev's “War and Peace” for want of Mr Vilar's money. Then the Washington Opera removed Mr Vilar's name from its Young Artists programme. In June, it emerged that over $2m given to the Washington and Los Angeles operas, initially attributed to Mr Vilar, was in fact paid by Placido Domingo, a singer and his friend. Worse, in the same month, his name was removed from its place of honour on the grand tier of New York's Metropolitan Opera House. His name, said the Met, “had been placed there in anticipation of funding commitments which have not been met”.

To a philanthropist, there is no worse fate than to be “rubbed out” by a beneficiary. It is a humiliation usually reserved only for the publicly disgraced—an Ivan Boesky, convicted insider trader, or Dennis Kozlowski, forced, after scandals, to quit as boss of Tyco—not for a mere late payer such as Mr Vilar who,

after all, still ranks as one of the Met's most generous benefactors ever. There has been much speculation about why the Met decided to issue so public a rebuke. Had Mr Vilar made enemies in high places? He certainly had a reputation for micro-managing how his donations were used, even down to which singers appeared in which shows. He also insisted that his name be highlighted, on buildings and in full-page spreads in the programme. But, then again, where would American philanthropy be without vanity? Giving in secret may earn rewards in heaven, but widows' mites did not build America's great private hospitals, private universities or, indeed, its opera houses.

Giving until it hurts

Mr Vilar thinks that the Met simply does not understand the American model of philanthropy, in which giving marches in step with the ups and downs of the financial markets. In strong markets, the wealthy give more; the quid pro quo is that when markets are weak, donors must be allowed to reschedule pledged payments until the markets rebound. “A lot of people are currently stretching out their gifts,” confirms Stacy Palmer, editor of the *Chronicle of Philanthropy*. In the world of philanthropy, says Mr Vilar, “you don't take a gun out and shoot a guy after he's six months late”. Ted Turner, who pledged $1 billion to the United Nations in happier times, has decided to take more time to pay up, which he says he still will. Even Britain's Royal Opera House—home of the Vilar Floral Hall—understands this, and has let Mr Vilar reschedule his donations.

He has a point. Recipients of gifts have only themselves to blame if they spend pledged money before the cash has actually arrived. On the other hand—and this is where Mr Vilar seems to have been clearly at fault—donors have a responsibility to be realistic in their pledges, and quick to alert beneficiaries if they find they may be unable to make payments. Mr Vilar remains almost pathologically bullish: “I'm 62, a bachelor with no kids. I've got a great track record in investing. Tech shares are soaring again. This is not the time to drive me away.” Perhaps the Met should hedge its bets, and restore his name to the grand tier.

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American productivity

The new “new economy”

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How real and how durable are America's extraordinary gains in productivity?

IN AT least one sense, America's “new economy” is well and truly dead. The number of articles in financial newspapers containing the words “new economy” is now running at only 5% of its level in 2000. Yet in another sense the new economy is very much alive and kicking: its most important feature, namely America's improvement in productivity based on new information technology, continues to amaze.

Revised figures last week showed that output per man-hour in America's non-farm business sector grew at an annual rate of 6.8% in the second quarter of this year. Quarterly changes are notoriously volatile, but over the past year productivity has increased by an impressive 4.1%.

Productivity always bounces back in the early stages of an economic recovery (as firms produce more with their leaner workforces). But the recent spurt has been unusually robust, especially since this has been America's weakest recovery in modern history. According to J.P. Morgan Chase, over the past five years America has enjoyed the fastest productivity growth in any such period since the second world war. Over the whole period from 1995, labour productivity growth has averaged almost 3% a year, twice the average rate over the previous two decades.

When productivity first picked up in the late 1990s, economists debated fiercely about how much of the increase was structural and how much of it was cyclical. Some argued that it was exaggerated by the unsustainable boom in output and investment, and would slow when the economy faltered. Robert Gordon, an economist at America's Northwestern University, was one of the most outspoken new economy sceptics. In a widely cited paper published in 1999, he estimated that after adjusting for the effects of the economic cycle, all of the increase in labour productivity was concentrated in the manufacturing of computers, with no net gain in the rest of the economy. He concluded that the economic effects of computers and the internet were not in the same league as those of electricity or the motor car in the early 20th century.

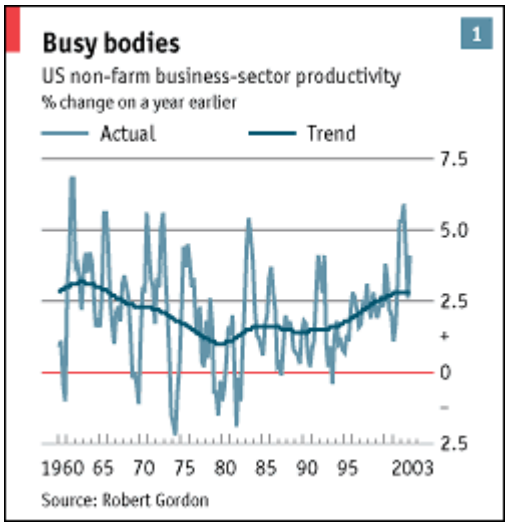
To his credit, Mr Gordon has been quick to follow Keynes's dictum: “When the facts change, I change my mind.” In a new paper*, he admits that more recent data have shown his original conclusion to be wrong: faster productivity growth has proved more durable and has spread to the wider economy. However, as he points out, the latest data raise many new questions about why this is so.

Unsolved puzzles

The first puzzle is that, since the peak of the economic boom in 2000, productivity growth has speeded up when it might have been expected to slow down. American labour productivity has increased at an average annual rate of 3.4% since 2000, up from an average of 2.5% during the 1995-2000 economic boom. In other words, the latest figures suggest that the cyclical boost in the late 1990s was negligible: most of the spurt in productivity represented an increase in its long-term rate of growth.

Adjusting for the economic cycle is always tricky. In the late stages of an expansion, productivity growth tends to be below trend because over-optimistic firms hire too many people just at the time when demand is starting to slow. Productivity growth then falls further below trend as the economy dips into recession.

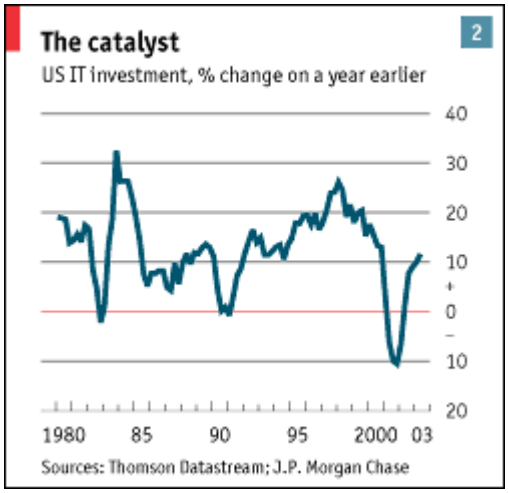
The most rapid productivity growth occurs in the early stages of recovery. Then output begins to perk up, but firms are still cutting costs and laying off workers. This suggests that part of the surge in productivity over the past two years of recovery is likely to prove temporary. Mr Gordon reckons that the trend growth rate has now risen to around 2.8% (see chart 1).



A second puzzle is why productivity accelerated over the past three years at the same time as IT investment fell (see chart 2). After all, a host of studies have concluded that most of the revival in productivity growth is linked to the production or the use of computers and software.

One explanation is that the productivity gains from IT investment do not materialise on the day that a computer is bought. Work by Paul David, an economist at Oxford University, has shown that productivity growth did not accelerate until years after the introduction of electric power in the late 19th century. It took time for firms to figure out how to reorganise their factories around the use of electricity and to reap the full efficiency gains.

Something similar seems to be happening with IT. Investing in computers does not automatically boost productivity growth; firms need to reorganise their business practices as well. Just as the steam age gradually moved production from households to factories, and electricity eventually made possible the assembly line, so computers and the internet are triggering a sweeping reorganisation of business, from the online buying of inputs to the outsourcing of operations. Yet again, though, the benefits are arriving years after the money has been spent.



That investing in IT is necessary but not sufficient for productivity gains is suggested by the experience of retailers. Most of them have introduced technologies such as bar-code readers and electronic stock control. Yet productivity gains in retailing have largely been concentrated in the new, large discount stores, such as Wal-Mart, and big supermarkets. They have not been found to anything like the same extent in smaller old-style shops.

Recent productivity gains have certainly been spread more widely than in the late 1990s. IT can boost labour productivity by increasing capital per worker, or by increasing total factor productivity (TFP: the efficiency with which inputs of both capital and labour are used). Calculations by Stephen Oliner and Daniel Sichel, both economists at America's Federal Reserve, show that from 1995 to 1999 investment in IT plus TFP gains in the production of IT goods accounted for 98% of the total increase in productivity growth. But when the period is extended to 2002, the total direct contribution of IT declines to 76%, with faster TFP growth appearing in other sectors of the economy.

Another persuasive argument to explain why productivity has jumped as investment has fallen is based on work by Erik Brynjolfsson, an economist at MIT. IT investment in the late 1990s was accompanied by significant intangible investment in human capital (such as retraining) and in new business processes (“re-engineering”). This required more workers (consultants and IT support). However, unlike business fixed investment, this spending is not counted as final output but as a corporate expense. So it depresses measured output per hour.

Since 2000, the pay-off from that intangible investment has at last come through, boosting output, ironically, at the same time as many of the workers who delivered those gains have been laid off. This has temporarily inflated measured productivity growth. In other words: productivity growth was understated in the late 1990s but overstated more recently.

The productivity debate is surrounded by a thick statistical fog. For example, official numbers may understate growth because they ignore improvements in the quality of many goods and services. Stephen Roach, the chief economist at Morgan Stanley, has another statistical quibble. Over the past year, productivity in services has grown much faster than that in manufacturing. Yet, as he points out, there are huge problems in the measurement of both the output of service-sector workers and their hours worked.

According to official statistics, the average working week in financial services in America is (at 35.5 hours) the same as a decade earlier. Mr Roach argues that thanks to mobile phones, laptops and the internet, his working day has surely lengthened over the past decade. If so, productivity growth may be overstated.

For America's recent productivity trend to continue for another ten years, it will need sources of innovation that can generate an investment boom of a similar magnitude to that of the late 1990s. But Mr Gordon reckons that diminishing returns are setting in: web-enabled mobile phones, digital cameras and their ilk offer improvements in consumer entertainment, he says. But they do not promise fundamental changes in business productivity such as were provided by the invention of user-friendly business software or the internet.

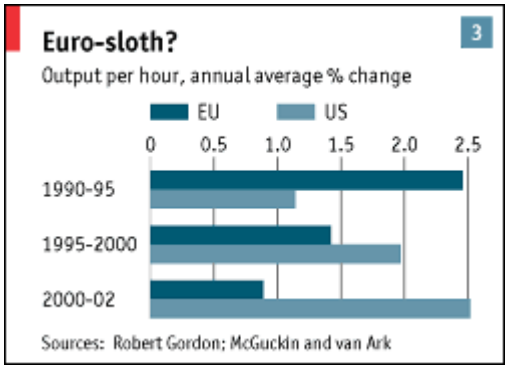
Gains to come?

Pundits who reckon that 3-4% productivity growth is sustainable for another 5-10 years are, in effect, making the bold claim that IT will have a far bigger economic impact than any previous technological revolution. During the prime years of the world's first industrial revolution—the steam age in the 19th century—labour productivity growth in Britain averaged barely 1% a year. At the peak of the electricity revolution, during the 1920s, America's productivity growth averaged 2.3%.

Yet there are still good reasons to believe that IT will have at least as big an economic impact as electricity, with average annual productivity growth of perhaps 2.5% over the coming years. One is that the cost of computers and communications has plummeted far more steeply than that of any previous technology, allowing it to be used more widely throughout the economy. Over the past three decades, the real price of computer-processing power has fallen by 35% a year; during 1890-1920, electricity prices fell by only 6% a year in real terms.

IT is also more pervasive than previous technologies: it can boost efficiency in almost everything that a firm does—from design to accounting—and in every sector of the economy. The gains from electricity were mainly concentrated in the manufacture and distribution of goods. This is the first technology that could significantly boost productivity in services.

Perhaps the biggest puzzle about America's productivity gains is why Europe's IT investment has not delivered similar increases. Since the mid-1990s, while America's productivity growth has quickened, that in the European Union has slowed sharply (see chart 3).



Official statistics, however, exaggerate America's lead. American firms' spending on software is counted as investment, so it contributes to GDP. In the euro area, most countries count such software as a current business expense, and so it is excluded from final output. This depresses Europe's productivity growth relative to America's.

In addition, many European economies (unlike America's) do not allow fully for gains in computer quality over time. So official figures understate GDP growth. Adjusting for this undoubtedly narrows the gap between Europe and America. But it cannot alter the fact that productivity growth has actually fallen in Europe.

According to one study† virtually all of the difference in the growth rates of productivity in America and Europe in the late 1990s came from just three industries: wholesaling, retailing and securities trading. Just as American retailers made big efficiency gains for reasons not directly related to computers, European firms fell behind because with some exceptions, such as France's Carrefour, they were much less free to develop “big box” retail formats. Regulations on the use of land prevent the carving out of greenfield sites for big stores in suburban locations.

Angel Ubide, an economist at Tudor Investment, an American fund management company, argues that IT investment has benefited America more than the EU because Europe already had a high ratio of capital to labour (the result of its higher unit labour costs). America started the 1990s with a low capital-to-labour ratio, so there was much greater scope for investment, and hence room to boost labour productivity. In contrast, the EU's capital-to-labour ratio has risen by much less.

A more common complaint is that Europe's inflexible labour and product markets hinder the shift of labour and capital that is needed to unlock productivity gains. This is undoubtedly true. However, recent reforms to make labour markets more flexible may themselves have reduced productivity growth by deliberately making growth more job-intensive. Arrangements such as part-time jobs and fixed-term contracts, and cuts in social-security contributions for the low paid, have encouraged more hiring. The flip-side is lower productivity growth as more low-skilled workers enter the workforce.

It is striking that productivity growth has slowed most in those European countries with the strongest growth in jobs. In Germany, for example, where few new jobs have been created over the past decade, productivity growth has held up better than elsewhere.

America was the first big country to embrace IT, so it is hardly surprising that it has been the first to benefit. Most European countries still lag behind in their use of computers and the internet. Thus the benefits for them may lie in the future. Indeed, the eventual economic pay-off could turn out to be bigger in Europe than in the United States. In theory, the internet, by increasing transparency and competition, could make deep inroads into archaic European business practices. If it is true that European firms are much less efficient than their American counterparts, there is greater scope for productivity gains.

There is also an advantage in being a follower in adopting new technology, rather than a trailblazer: you can wait to see what works and then pick the best bits. As Paul Saffo of California's Institute for the Future once said: “The early bird may catch the worm; but it is always the second mouse that gets the cheese.”

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† “ICT and productivity in Europe and the United States: Where do the differences come from?” by B. van Ark, R. Inklaar and R. McGuckin.

* “Five puzzles in the behaviour of productivity, investment, and innovation”.

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Boosting productivity

On the shop floor

Sep 11th 2003 | SAN FRANCISCO
From The Economist print edition

Automation is part of it, but better understanding is the key

ON ITS own, IT can boost productivity a lot. For example, it costs FedEx $2.40 to track a package for a customer who calls by phone, but only four cents for one who visits its website, says Rob Carter, the firm's technology boss. FedEx now gets about 3m online tracking requests a day, compared with only a few tens of thousands by phone.

The potential to make further gains from IT is still considerable. The Hilton group, for instance, is about to test self-service check-in kiosks at its Chicago and New York hotels. Such kiosks are proving increasingly popular at airport check-ins. IBM, the market leader, says that 5m airline passengers a month now use its self-service check-in systems.

But the most dramatic gains happen when companies use technology to understand better what they do in order to change how they do it, says Navi Radjou, an analyst at Forrester, a technology-research firm. The main issue slowing productivity gains down, he adds, is “grandma syndrome”—a reluctance to ditch tried and tested processes.

The bravest grandma-ditcher of them all is probably Dell, a computer-maker. It constantly improves the way that it links suppliers and customers through its website, and it regularly revisits its processes. Dell now sends electronic orders to suppliers every few hours and can build a computer in less than 24. One of its managers in Austin, Texas, was recently heard estimating productivity gains of 30% this year, and again next year.

A member of a team from Ford recently visiting Dell doubted that his employer could ever do anything so drastic. But old-established companies can make similar gains. Procter & Gamble, a consumer-goods giant, used to think that the most efficient way to get detergent from its warehouses to shops' shelves was to load trucks as fully as possible. Then, a few years ago, it invested in software from BiosGroup, now owned by a company called Nutech Solutions, to simulate what happened to its inventory as it moved through the supply chain. The counter-intuitive conclusion was that it makes more sense to send trucks less full, and to load some toothpaste and other stuff alongside the detergent. As a result, P&G's inventory is down by some 30%, and its warehouse workers spend less time idle.

Delta Airlines is another example. About 1,000 of its 7,500 maintenance staff specialise in engines. Many of them used to spend long hours sifting through statistical documents about engine vibrations, temperatures, fuel flow and so on, while waiting for engines to break down before fixing them. Last year, the airline invested in software from a firm called SmartSignal that analyses engine data automatically and predicts problems weeks in advance. The system was fully implemented this summer and has so far given ten correct warnings and no false alarms. As a result, Delta's mechanics now fix things before they break down. Walter Taylor, a Delta manager, says that the engineers have so much time left over that they boost their productivity by doing more “in-sourcing” (ie, fixing other airlines' engines).

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Mutual funds

In Spitzer's sights

Sep 11th 2003 | NEW YORK
From The Economist print edition

The attorney-general of New York state turns his fire on America's mutual funds

Reuters

UNTIL recently, it had seemed that America's mutual funds were safe from the scandals that have tainted much else in the country's financial industry. Yes, lower share prices had taken a toll on assets under management and thus on fund managers' fees. But investors' anger over their losses was focused on those who sold equities—the company bosses who issued misleading financial statements and the investment banks that peddled the stock—not the fund managers who bought them. Indeed, with the rebound in share prices, Americans have once again been pouring money into equity funds. Total assets under management were $6.9 trillion in July, $800 billion more than last September's trough.

Now, however, the mutual-fund industry's integrity is on trial. On September 3rd, Eliot Spitzer, the publicity-hungry attorney-general of New York state, announced a $40m settlement with Canary Capital, a small hedge fund run by Edward Stern, heir to a pet-food fortune (who admitted no guilt). Mr Spitzer's original complaint was laden with allegations about four mutual-fund firms that have not yet been charged—Bank of America, Bank One, Janus and Strong Capital—with a vague promise of more to come.

Mr Spitzer's complaint is that Mr Stern was allowed to trade shares in funds in one or both of two ways that were advantageous for him and them, but costly for other investors. The first is “late trading”: the placing of buy or sell orders after fund prices are set at the end of the trading day, in order to profit from news about companies whose shares are held by the fund. This is illegal. The second, “market timing”, exploits the gap between the setting of fund prices and movements of underlying security prices in foreign or illiquid markets. The legality of this is murky. The fund-management firms went along, says Mr Spitzer, because they wanted fees from Mr Stern—directly, and from other business he put their way—at the expense of other shareholders in the funds.

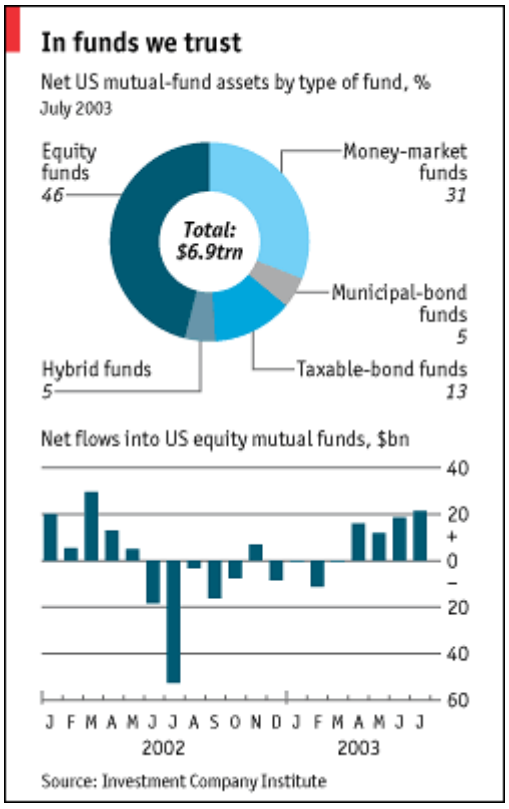
All this strikes at the heart of fund managers' fiduciary responsibilities. Unlike investment banks, the target of Mr Spitzer's previous crusade, mutual funds have clear loyalties in law. On Wall Street, conflicts of interest are all but inevitable, because investment banks both issue and buy securities. Mutual funds, however, are supposed to serve only their fundholders. This might mean that Mr Spitzer finds it easier to build a case against the mutual-fund industry—or some companies in it—than he did against the investment banks.

How much might investors have lost? Mr Spitzer cited research by Eric Zitzewitz, of Stanford University.

This suggests that the returns of investors in affected funds might be cut by at most two percentage points a year. The total damage across the whole industry, thinks Mr Zitzewitz, might be $5 billion. This is a large sum, but still less than 0.1% of mutual-fund assets.

The real damage may be to the industry's reputation. A number of prominent funds may have put aside their standards in order to gain lucrative business. “Marketing issues overwhelmed the fiduciary obligations for managing money,” says Barry Barbash, a lawyer at Shearman & Sterling, former head of investment management at the Securities and Exchange Commission (SEC).

Worse, Mr Spitzer's complaints are not the first: in July the state of Massachusetts charged Morgan Stanley over inducements to its sales force to push costly in-house funds. Nor might Mr Spitzer's complaints be the last. His investigation has apparently spurred other regulators to act. On September 8th, officials from the SEC visited a Boston office of Prudential Securities; shortly after the SEC's call, Prudential received a subpoena from Mr Spitzer. Although the SEC applauded Mr Spitzer's strike against the mutual-fund industry, there is rivalry beneath the surface. The SEC looked flat-footed when Mr Spitzer was beating up the Wall Street banks. His complaint against mutual funds was probably helped by a tip: federal prosecutors are almost certainly riled by the thought that he got it first because he seemed more willing to act.



Mr Spitzer's style is to settle with his adversaries rather than to test his case in court. That may suit fund-management firms too. Three out of the four firms named by him—Bank of America, Bank One and Janus—concede that there may have been improper trades. If there were, they say, they will repay investors' losses. The fourth, Strong, is conducting a review.

Most other leading mutual-fund firms have been asked for information by regulators. A handful are reported to have received subpoenas from Mr Spitzer. These include BlackRock, Invesco, Legg Mason, Federated Investors and Vanguard. How should they respond? When Mr Spitzer was hunting Wall Street's banks, the usual response from firms invited to supply information to regulators was a carefully worded promise of co-operation with the authorities and a careful internal review. There was often a hint of contrition, and sometimes more than a hint, but of course no admission of guilt. The Wall Street cases show that this strategy, plus the payment of a large fine, can settle the most awkward allegations—even if it does little for the firms' reputations.

As guardians of a large slice of Americans' savings, mutual funds may worry more about their reputation with ordinary Americans. Maybe this is why the funds' reaction to Mr Spitzer's threats has been slightly different. Vanguard is indignant at the very thought of a subpoena. A note on its website declares that charges of inappropriate trading “would fly in the face of everything Vanguard stands for in terms of fiduciary responsibility, ethics, and integrity.” If investors are to retain their confidence in America's financial markets, other firms will have to step forward with similar confidence. And then, when scrutinised by Mr Spitzer and his sort, they will have to emerge unscathed.

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American pensions

In the red

Sep 11th 2003
From The Economist print edition

America's corporate pensions need reform, not tinkering

ALARM bells are ringing again. Earlier this month Steve Kandarian, boss of the Pension Benefit Guaranty Corporation (PBGC), the quasi-governmental agency that insures America's private, defined-benefit company pension plans, told a congressional committee that the agency's deficit had swollen to $5.7 billion by July (see chart). The future looks no better. The PBGC thinks that by the end of this month, the pension deficits of America's shakiest firms will be $80 billion, up from $35 billion last year. Some of this is sure to land on the agency. Maybe, said Mr Kandarian, taxpayers will have to bail it out.

The situation might be even worse but for a recent narrowing of corporate-pension deficits. A reviving stockmarket has boosted pension funds' assets; higher longer-term bond yields have cut the present value of their long-term liabilities. America's total pension deficit, $400 billion at the end of last year, may have since shrunk by $50 billion. This is succour for optimists who attribute the sorry state of American pensions to a “perfect storm” of low interest rates, the bursting of the technology bubble and a sluggish global economy.

But that metaphor is flawed as well as tired. It implies that external events, not systemic problems, have caused America's pension gap. It may have been a perfect storm, says one Bush administration official, but what was the pension system doing adrift in the middle of the ocean?

The troubles of the PBGC and many corporate pension funds go beyond the whims of the stockmarket and the Federal Reserve. One problem is demography. Defined-benefit schemes are most popular in industries where pensioners far outnumber workers. In some steel-industry plans taken over by the PBGC, the ratio is seven-to-one. Such industries are often struggling against foreign competition, and pension costs make the battle harder still. Morgan Stanley reckons that retirees' pensions and health care cost General Motors $1,445 for every car and truck it makes; for Japanese carmakers with American plants, which have younger workforces and fewer retirees, the figure is between $100 and $200.

Accounting rules are another source of trouble. Companies are allowed to count the income of their pension funds as part of their profits. However, this income is not calculated by working out the fund's actual return; instead, it is whatever the company says it expects it to be. Companies therefore have an incentive to make this return as high as their accountants will tolerate. This means investing in equities rather than bonds, because the return on equities has historically been higher. But equities are also riskier, and future pensioners bear the risk.

The premiums charged by the PBGC give firms another incentive to invest their pension money riskily. These premiums have nothing to do with a firm's financial health or its investment policies. So wobbly firms have little to lose from investing riskily; more robust companies have little reason to stay in the PBGC system and subsidise the weak and wayward.

The Bush administration has put forward a number of reforms. First, it is tackling the highly charged issue of the interest rate which firms must use to calculate the present value of their future pension obligations. The maximum now is 120% of the yield on 30-year Treasury bonds. Companies want a higher rate (which would cut the present value of obligations and thus their pension contributions); many academics (and pensioners) think that the rate should be lower (and, therefore, that contributions should

be higher) because of the PBGC's guarantee. The government has proposed something in between. A decision is due by the end of the year.

Second, the government says that companies with big pension deficits should make public information that they now give only to the PBGC. This would give pensioners (or, more likely, their financial advisers) a better idea of what extra provision they should make for old age if they can. Third, firms with junk-bond credit ratings and big holes in their pension funds should promise no extra benefits, unless they can pay for them straight away.

Last, the administration vaguely promises “comprehensive reform”. This might mean following Britain's lead in forcing companies to value pension assets regularly at market prices. Although these valuations can fluctuate greatly as markets rise and fall, they do at least focus minds on how well pension assets are managed.

Repairing America's pension system is a tall order. The political obstacles are enormous: who wants to make companies' accounts look worse, or to damage Americans' confidence in their future? But without action the system's shortcomings will remain—whatever stockmarket swings do to the pension gap.

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World trade

Posturing in Cancún

Sep 11th 2003
From The Economist print edition

The World Trade Organisation's meeting begins, with much at stake

Get article background

PROTEST, both peaceful and tragically violent, marked the start of the World Trade Organisation's ministerial meeting in the Mexican city of Cancún. On the beach, naked protestors lay down in a formation that read “No WTO”. Elsewhere, demonstrators broke through barriers or fought with police. A South Korean farmer stabbed himself to death. Indoors, the talking began. Of the big issues on the agenda—freeing farm trade, cutting industrial tariffs and how (or whether) to write rules on new issues, such as competition and investment—agriculture looked set to become the most contentious.

Even before the summit formally started on September 10th, a big rift appeared between rich and poor countries on freeing farm trade. A group of developing countries, dubbed the G20 and led by Brazil, China and India, demanded more radical cuts in farm support from the rich world than were being offered so far. This new alliance of developing countries, which represents over half the world's population and two-thirds of its farmers, sent a stark message: poor countries were going to work together, and they intended to make overall progress at Cancún dependent on an ambitious dismantling of farm protection in rich countries.

The fight over farm trade boils down to how far the rich world cuts tariffs on agricultural goods and dismantles its vast farm subsidies, and by how much developing countries reduce their own (considerable) tariffs in return. The tone of the farm talks was set in mid-August when, after months of stalemate, the European Union and America agreed on a broad framework for freeing agricultural trade. Although vague, the framework offered some general guidelines for how to cut tariffs, reduce (though not eliminate) export subsidies and shrink trade-distorting farm subsidies. With some modifications, the official draft text on which ministers are supposed to negotiate broadly follows this framework.

The G20, however, argues that the framework demands too little of rich countries and too much of poor ones. They say that since rich countries are largely to blame for today's distorted farm markets, they should do the most to open up. Specifically, the G20 wants a commitment to eliminate export subsidies, a tighter discipline on domestic subsidies and bigger tariff cuts by rich countries. Poor countries should have to do less.

The EU and America have said no. America's negotiators went to Cancún with a clear message. They say they want ambitious results—but they can only be bold if others, especially developing countries, are bold too. Although America's talk of ambition should be taken with a pinch of salt—it increased farm subsidies last year—its sentiment is right. Global trade will benefit most if both rich and poor liberalise with a will. Whatever poses were struck as the ministerial meeting began, that would be the right result.

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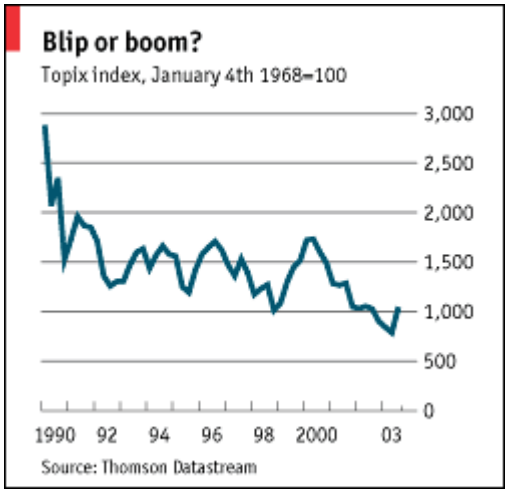
Japan's stockmarket

Don't get your hopes down yet

Sep 11th 2003 | TOKYO
From The Economist print edition

At some point, Japanese shares will enjoy a lasting rally. Is this it?



THE past few months have been cheerful for investors in Japan's stockmarket. The Topix index of Japan's leading companies has risen by 35% since March to just over 1,000, driven in part by better macroeconomic news: real GDP, say newly revised data, grew at an annual rate of 3.9% in the second quarter. The usual warnings have been sounded: sustained recovery has seemed to be on the way three times in the past decade, weary Japan-watchers point out, only to give way to a slow, demoralising slide. Yet the optimists are not to be put off. This time, they sense, caution may mean forgoing big gains.

One of the boldest cases for hope was set out on September 8th by Kathy Matsui, Goldman Sachs's chief equity strategist in Tokyo, in a report entitled “Six Reasons Why This Time May Be Different”. Before she starts listing those reasons, she argues that Japanese shares, which are now trading at 20 times expected earnings, look fairly cheap compared with earlier rallies. Profits of non-financial companies have already risen in the past few quarters. Based on expected earnings for this fiscal year, which ends in March, Ms Matsui forecasts that within six to 12 months the Topix index will reach 1,200.

However, this would also correspond to a rise of 56% from the market's bottom in March—roughly the point at which the last three rallies fizzled. If something more substantial is on the way, the recent upswing in the economic cycle, or at least in profitability, will have to prove durable. Can it?

Three of Ms Matsui's reasons to be cheerful stem from her optimism about profits. One is that rising earnings will continue to feed through to share prices. Another is that she thinks corporate governance is improving. Third, cost cutting and other restructuring efforts are setting the stage for higher returns. A fourth reason is more technical: she expects the unwinding of companies' and banks' shareholdings in each other to generate much less selling pressure than it has in recent years.

Ms Matsui's last two reasons are macroeconomic. She believes that banks are starting to make progress on their bad loans, raising the odds that fresh credit will finally start to flow. Finally, she points out that, unlike in previous rallies, private domestic demand, rather than exports or fiscal loosening, is supplying much of the economic impetus.

Right or not, Ms Matsui has put her finger on the right questions. On profitability, the chief of these is whether the improvement in corporate governance that she expects, which will be needed if the gains from restructuring are to last, will come to pass. In Japan, as elsewhere, managers tend to relax once the pressure is off. Many investors will want to see more evidence before they believe that banks are solving their problems. And the recent spurt of growth may prove short-lived: thanks to deflation, nominal GDP is still limping.

Even so, says Ms Matsui, if prices merely fall at a slower rate, this could have a profound effect on confidence and expectations. It could give the economy and the market the sustained boost they need—and leave the cautious kicking themselves.

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House prices

Hot property

Sep 11th 2003
From The Economist print edition

The higher they climb, the further they will fall

A SURVEY in *The Economist* in May predicted that house prices would fall by 10% in America over the next four years, and by 20-30% in Australia, Britain, Ireland, the Netherlands and Spain. Prices have since continued to rise, so have we changed our mind? On the contrary: if house prices become more overvalued, they are even more likely to fall.

The Economist's global house-price indicators allow us to test the temperature of housing markets. Our latest quarterly update shows that in many countries property is still hot—much too hot. Figures for mid-2003 show that the pace of house-price inflation has slowed over the past year in about half of the countries we cover, including America, Britain and the Netherlands, but quickened in the rest, especially Ireland and Spain (see table). And although the market has cooled in Britain and Australia, house prices have still leapt by 18% in the past year.

***The Economist*'s house-price indices**
House prices, % change on a year ago

	2003, latest	mid-2002
Australia	18.1	18.9
Britain	17.8	19.8
Spain	17.5	15.8
Ireland	14.7	5.2
France	10.3	8.0
Belgium	9.9*	8.1
Italy	8.8	9.5
Sweden	7.6	5.3
Canada	5.8	5.3
United States	5.6	7.2
Netherlands	2.7	6.3
Germany	-3.5*	1.6
Japan	-4.8	-4.5

*2002 Q4

Sources: Bulwien; ESRI; Japan Real Estate Institute; Ministerio de Fomento; Nationwide Building Society; Nomisma; OFHEO; Stadim; government statistics

Ireland has seen by far the biggest acceleration: prices rose by 15% in the year to June, compared with a 5% increase a year earlier. Irish home prices have now risen by a breathtaking 245% since 1995. Britain, the Netherlands and Spain have seen prices more than double.

In America, where we also identified a potential house-price bubble, the 12-month rate of growth in home prices slowed to 5.6% in the year to the second quarter, the slowest rate of increase since 1999. Meanwhile, home prices continue to fall in Germany and Japan.

Many readers reject our gloomy warnings about a more widespread fall in house prices. They argue that lower interest rates make buying a home cheaper. This increases the demand for owner-occupation and so, it is argued, justifies higher prices. There are two flaws in this argument. First, interest rates are not that low in real, inflation-adjusted terms. Initial interest payments may seem low in relation to income, but because inflation is also low it will not erode the real burden of debt as swiftly as it used to. So in later years mortgage payments will absorb a bigger slice of a borrower's income than when inflation was higher. To argue, when inflation is low, that low nominal interest rates make buying a home cheaper is as foolish as arguing that a loan paid off over five years is cheaper than one paid off over two.

Second, at some stage in the future interest rates will rise. Buying a home may then not look quite such a bargain. American mortgage rates have already risen sharply in the past two months, in line with the jump in long-term bond yields.

Our reason for suspecting that a house-price bubble has developed in the six countries listed in the first paragraph is that in all of them house prices are close to record levels in relation to both rents and average incomes. Our favourite measure of whether home prices are fairly valued is the housing “price-earnings (p/e) ratio”, the ratio of home prices to rents. Just as the price of a share should equal the discounted present value of future profits, so the price of a house should reflect the future benefits of ownership—either rental income or the implicit rent saved by an owner-occupier. In America, the p/e ratio is now 18% above its 25-year average. In Britain and Australia the ratio suggests that prices, judged by the 25-year benchmark, are more than 30% overvalued.

If you still believe that house prices are fairly valued, two anecdotes might cause you to pause. In Australia, where the house-price boom has been driven by the buy-to-let market, investors now account for 45% of all new mortgage lending. In Britain, the average deposit required by a first-time buyer has risen from 28% of annual income in 1997 to 80% this year. As first-time buyers are squeezed out of the market, it cannot be long before house prices start to wobble.

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About sponsorship

Russia's tangled statistics

Mud and weeds

Sep 11th 2003 | MOSCOW
From The Economist print edition

The difficulty of measuring Russia's economy

Get article background

THE figures prove what everyone knows: Russians drink like mad. In 2001, alcohol overdoses killed 139 people in England and Wales, but more than 40,000 Russians, in a population less than three times the size. But other official figures indicate quite the opposite: the average Briton consumed the equivalent of 8.4 litres of pure alcohol in 2001, the average Russian swallowed a mere 8.1 litres.

Why the discrepancy? A mix of understated production by Russian distillers and the Russian taste for industrial alcohol or toxic moonshine could be one explanation. But the confusion about just how drink-mad Russians are is just one example of the difficulty of measuring anything in Russia these days. (Indeed, even the official data on deaths from booze poisoning are blurred: “more than 40,000” is as precise as they get.) Contradictory figures are the bane of Russian economists and sociologists and have fuelled a dispute about whether Russia is getting better or worse.

Yegor Gaidar, the architect of the early economic reforms, once said that Russian businesses “went from fulfilling the plan to avoiding the taxman”—that is, from exaggerating to understating their output. Goskomstat, the state statistics committee, was accustomed to counting physical things—and was especially keen on tonnes of steel. Now it must make sense of a fast-growing service sector and a multitude of small firms. After the 1998 economic crash, people changed their spending habits as often as their underwear, moving from basic foods to processed foods to durables to ever-snazzier luxury goods as the economy recovered. They dragged inflation experts in their wake. Goskomstat has revised some GDP figures three times.

Vladimir Sokolin, the agency's director, says its methods, after years of collaboration with the IMF and other countries' statistical services, are now as good as any. Yet even the best bean-counters would be hard-pressed to keep up with such changes; and Goskomstat cannot afford to hire and keep the best staff.

The grey economy, with its tax evasion and bribery, is another headache. Goskomstat, using World Bank methods, reckons it to be about a quarter of total GDP. Greg Thain of Interactive Research Group, a market-research firm, says the agency still underestimates private consumption and investment by small businesses.

Labyrinthine regulations also lead to distortions. In 2002 investment growth suddenly fell, sparking fears that the recovery from the 1998 economic meltdown was faltering. However, the government had just eliminated tax breaks that had encouraged companies to disguise some of their profits as investment. With the loophole closed, investment is roaring again.

Likewise, a tangle of tariffs encourages importers to register, say, flowers, which carry a high duty, as vegetables, with a much lower one. Goskomstat adds about a third to the import data it gets from the customs service to plug a gap in the trade figures. Even so, there is a big hole in the balance of payments (“net errors and omissions”, in the accounts). More unregistered imports, say some; capital flight, say others. The answer matters, since capital flight is a sign that investors are scared.

All this fuels an enduring dispute about whether Russians as a whole are better or worse off after a dozen years of reform. Official GDP is still nearly a third lower than before the Soviet Union's collapse. But this is partly for all the reasons above, and partly because Soviet estimates used state-fixed prices for goods that, in a free market, became worthless. The prices used to evaluate barter transactions, common in the

1990s, were also overstated.

Optimists argue that consumption, which is 20% higher than in 1990, is a far better measure of the real improvement in most Russians' lives. But it, too, is misleading. Few Russians pay rent or mortgages (they inherited their homes from the state), and they save very little, preferring to spend it while they have it. That means they may look rich now, but will look less so when their dwellings start to decay.

The confusion is not confined to economics. New HIV infections have dropped in the past two years from 8,000 a month to 2,500. A success? No; it is probably because testing used to focus on high-risk, needle-using groups. Now the same number of tests is being carried out, but on a broader population.

A recent article in the *Moscow Times* lamented that the land of Dostoevsky and Gogol is becoming a nation of illiterates. Book circulation is less than half what it was 1992. But a closer look at the figures reveals that, even as the number of books sold has dropped, the number of titles has more than doubled. Are Russians reading less? Or are they now choosing what to read, instead of having titles foisted on them? So trivial a number, and yet its true meaning would tell so much about Russian society.

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Eastern European economies

Never had it so good

Sep 11th 2003 | KRYNICA, POLAND
From The Economist print edition

Trouble is, it doesn't feel that way

PEOPLE in ex-communist countries do not always know when they are well off, says a study* presented at the Polish Economic Forum in Krynica this month. A “blindness to success” could undermine even successful market reforms.

The study focuses on south-east Europe. It finds that even though governments in the region have done a fair job of implementing market reforms and incomes have risen, this has not generated much public confidence about life in general (see chart). On the contrary, strongish economic growth has coincided with a low level of trust in institutions and even “a trend of collapsing expectations about the future”.

Part of the problem seems to be that many beneficiaries of reform consider themselves victims of the change. In Bulgaria, the regional leader in economic and institutional reforms, about 20% of respondents to a national survey appeared by most objective measures to have gained from reform, but less than 6% identified themselves as such.

Possibly, people's pleasure at their material gains is outweighed by their fear that their wealth and status has become less secure in a market environment. It may also be that economic growth in many transition economies has fallen far short of early popular expectations of instant wealth, leaving ample space for feelings of resentment and loss, and for golden-age myths about the past.

Such misperceptions can have real effects. Domestic savings are likely to be lower among people with little faith in the future. Reforms without public support are more vulnerable politically to reversal. So if policies which successfully encourage economic growth do not seem to create their own support, says the Krynica study, then support must be built by specific, additional policies.

Identifying these is not easy. The study reasonably argues for targeted benefits for people who truly suffer from reform, and tougher regulatory and anti-crime policies to winkle out “predatory elites” which thrive on monopolies and rigged markets. But the first idea will be expensive; the second, though necessary, will always be hard to implement. The study also recommends more “policy dialogue” among civil-society organisations. Unfortunately these nice people are not always the most rigorous advocates of market economics. A more vigorous effort by governments themselves to proselytise for reforms would seem a good idea, though even this could have unintended effects. Eastern Europeans have had a bellyful of government propaganda. More of it, even if true, might not be to their liking.

* “Getting Incentives Right, Getting Perceptions Right”. Blue Bird project: agenda for civil society in south-east Europe, Central European University, Budapest

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Economics focus

Fix or float?

Sep 11th 2003
From The Economist print edition

A developing country's economic institutions may matter more than its exchange-rate regime

FROM Latin America to South-East Asia, emerging economies that peg their exchange rates have suffered financial crises with alarming frequency in the past few years. Advisers of all sorts have urged them to let their currencies float on the foreign-exchange markets, and instead direct their monetary policy towards an inflation target. Swayed also by the success of inflation targeting in many developed countries, since 1998 at least ten emerging economies have taken this advice and have formally adopted inflation targets.

Purists point out that several of these converts do not really believe in their new religion, but are merely unreformed exchange-rate fiddlers in inflation targeters' garb. South Korea, they say, is one country that keeps its currency artificially low by continually stocking up on dollars. Yet such intervention may make perfect sense, says a recent paper by Corrinne Ho and Robert McCauley, of the Bank for International Settlements*. Because exchange-rate fluctuations have a bigger impact on inflation, trade and financial systems in emerging economies than they do in developed ones, intervention may help those countries achieve their inflation objectives.

The authors find that the “pass-through” from exchange rates to domestic prices is greater in emerging markets than in developed ones, because of poorer countries' often greater dependence on commodity trade. For instance, the proportion of a year's change in the consumer-price index that can be explained by fluctuations in the exchange rate is 41% in Indonesia and 48% in Hungary, but only 2% in the United States. Moreover, a lot of many emerging economies' trade is with one big partner, usually America or the euro area, making them more vulnerable to bilateral exchange-rate movements. Ms Ho and Mr McCauley also find that pass-through is higher in countries with a history of high inflation and currency crises.

Financial markets, which are underdeveloped in many emerging economies, are vulnerable to wild exchange-rate fluctuations. Large capital inflows that put upward pressure on real exchange rates are usually accompanied by too much borrowing and investment, and steep increases in asset prices. If investors lose confidence, these flows can go suddenly into reverse and the exchange rate falls. This means trouble: because investors are unwilling to lend in emerging-market currencies, local banks and companies end up laden with debts denominated in dollars and euros, while their assets are in the cheapened national currency. Defaults follow, and economic recovery can be slow.

Emerging countries' governments may be able to find ways of reducing their dependence on capricious foreign capital. One possibility is to pursue closer regional financial integration: the recently launched Asian Bond Fund, a scheme by 11 East and South-East Asian countries to facilitate the reinvestment of the region's capital locally rather than in America or Europe, is one such initiative. Further options might include the development of more intra-regional trade, in order to reduce dependence on a single, big trading partner, or the fostering of domestic demand, perhaps through local consumer-credit and mortgage markets.

However, such remedies are for the long term. Until they appear, say Ms Ho and Mr McCauley, it is fine for monetary authorities in emerging-market economies to manage their exchange rates, even if these are theoretically free-floating and there is an inflation target. They point to tools that should permit some dabbling in the currency markets without compromising the fight against inflation. If necessary, the central bank can use “sterilised” intervention: after selling its own currency and buying dollars to hold the exchange rate down, it can sell bonds to mop up the extra domestic currency, rather than let it seep into the money supply and thus risk higher inflation. Or, to the dislike of some purists, governments can

impose capital controls.

First, design your institution

Maybe the arguments over whether exchange rates should be fixed, free or managed are beside the point. According to another recent paper†, by Guillermo Calvo, of the Inter-American Development Bank, and Frederic Mishkin, of Columbia University, the choice of monetary regime matters less than the creation of good monetary, fiscal and financial institutions. Messrs Calvo and Mishkin argue that when governments run up huge debts, banks are poorly supervised and the central bank prints money willy-nilly, people can have no faith in the real value of money.

Governments might therefore fix the exchange rate in the hope that a tie to a strong currency will give them credibility and build confidence in the value of the national money. Then again, they might follow the advice of those who favour floating exchange rates, because then monetary policy should have the flexibility to deal with domestic economic concerns. However, none of this means much without good institutions. For example, central banks ought to be independent in more than name only. In theory, Argentina's central bank might appear more independent than Canada's; yet Argentina, not Canada, replaced a respected central-bank president with a government lackey in 2001, the year the country defaulted on its debts.

Like governments, monetary-policy regimes are rarely ideal, and the best system may vary from one country to the next. But, claim Messrs Calvo and Mishkin, governments should worry first about setting up institutions on which their citizens and investors can rely, and only then ponder the finer points of which variables should be the target of their central-bank boffins.

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* "Living with Flexible Exchange Rates: Issues and Recent Experience in Inflation Targeting Emerging Market Economies". BIS Working Paper no. 130, February 2003.

† "The Mirage of Exchange Rate Regimes for Emerging Market Countries". NBER Working Paper no. 9808, June 2003.

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About sponsorship

Correction: Insurers and the North American blackout

Sep 11th 2003
From The Economist print edition

Thank you to the many readers who pointed out that the satellite picture accompanying our story on insurers and the North American blackout ("Still in the dark", August 30th) was a fake. An accurate—if, alas, less spectacular—view from space can be viewed at www.snopes.com/photos/blackout.asp

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Recreational drugs

Withdrawal symptoms

Sep 11th 2003
From The Economist print edition

Alamy

A controversial paper on the effects of Ecstasy is retracted, fuelling debate

IN SCIENTIFIC publishing, as in surgery, retraction is a traumatic but revealing process. This week, George Ricaurte and his colleagues at Johns Hopkins University, in Baltimore, were on the operating table. Almost a year ago, this team of neuroscientists published a paper in *Science* which showed that methylene-dioxy-methamphetamine—a recreational drug more commonly known as Ecstasy—killed off brain cells that produce and respond to dopamine. This chemical is a neurotransmitter (a molecule that carries signals from one nerve cell to another). A lack of it is involved in Parkinson's disease, which causes tremors and twitches. The paper sparked debate both in the laboratory, where many other researchers questioned its methods and findings, and in the wider world, where the opponents of Ecstasy seized on the results as further proof of the drug's dangerous effects.

In the current issue of *Science*, however, Dr Ricaurte and his team retract these results. The reason is painfully simple: they injected the wrong drug into the monkeys in their experiments. The mistake apparently emerged when the researchers tried, and failed, to reproduce their findings, and also tried to extend them by feeding Ecstasy to monkeys rather than injecting it, in order to mimic more closely the way humans take the drug. When they realised they were using a different batch of Ecstasy for this work, they went back to look at their older supply. Unfortunately, the original vials had been discarded, but they did have vials of another drug, labelled as methamphetamine (a similar, but not identical, molecule), delivered by the same supplier on the same day. When tested, these vials were found to contain Ecstasy, not methamphetamine, which suggests that the labels had been switched.

Further proof came through animal testing. Although, like the vials, the monkeys used in the original experiments were long gone, some of their brains had been frozen for further research. When these were analysed, they were found to contain methamphetamine, not Ecstasy.

Not sorted

The proponents of Ecstasy have used this sorry turn of events to argue that the drug is not as dangerous as its opponents would have it. They accuse Dr Ricaurte of rushing his original research into print, under

pressure from politicians keen to clamp down on Ecstasy—a charge that he denies. Charles Grob, a psychiatrist at the University of California, Los Angeles, who is an advocate of the medical use of Ecstasy, argues that this mistake calls the whole body of Dr Ricaurte's research into question and that the wider issue of Ecstasy's long-term effects on the nervous system should be re-examined.

While many see this as a dark day for Ecstasy research, others are more sanguine. According to Michael Morgan, an experimental psychologist who works at the University of Sussex, in England, the vast body of research into the effects of heavy Ecstasy consumption suggests that serotonin, another neurotransmitter, is the molecule most affected by the drug, and that it is this which may be responsible for many of the long-term problems exhibited by some users. (These include memory loss, anxiety, impulsive behaviour and depression.) Dr Ricaurte's suggestion that dopamine levels are also directly affected by Ecstasy threw the field into confusion. What little clarity there is about the effects of the drug, Dr Morgan hopes, has now been restored with Dr Ricaurte's sad, but commendable, retraction.

That said, dopamine may well play a secondary role in the long-term effects of Ecstasy. Dr Morgan points to clinical research by his group, and recent brain-imaging studies by Rainer Thomasius at University Hospital Hamburg-Eppendorf in Germany. These suggest that although serotonin may be central to Ecstasy's long-term effects, other neurotransmitters could be involved as well. Indeed, work by Andy Parrott at the University of East London, also in England, has found that 14% of “light” Ecstasy users (those who have taken the drug fewer than ten times) and 38% of those with more than 100 lifetime exposures, complain of tremors and twitches that could be associated with changes in dopamine activity. There are also reports of doctors who are treating young Ecstasy users for Parkinson's disease. But because Ecstasy users often take other drugs as well, and sometimes have pre-existing psychiatric problems which spur them to take Ecstasy in the first place, pinning these effects specifically on Ecstasy will require much more research.

There is no doubt that using Ecstasy carelessly can kill by causing people to overheat and drink too much fluid. That lowers their blood's salt concentration and throws their hearts out of kilter. But whether light recreational use has long-term effects on the brain, and how, is still hotly debated. What is needed is a study of new users, to look at problems as they develop, and weed out other factors that might account for them. Until this is done, the dispute over Ecstasy will rave on.

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Data-storage systems

Thinking outside the box

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A new technology could make building computers easier and more efficient

MAKING a computer out of bricks sounds an odd idea. But that is one of the latest proposals to come out of IBM's Almaden Research Centre in San Jose, California. If the centre's Collective Intelligent Bricks are a success, they could turn building data-storage centres—and ultimately, perhaps, supercomputers—into a game of LEGO.

Collective Intelligent Bricks are cubes with edges about 20cm long. Inside a brick there are 12 disk drives, each of which can store 80 gigabytes of data. The bricks also contain a processor to run the disks and a chip that sends signals to the connectors that join a brick to its neighbours.

Those connectors are novel, too. Each face of a brick has 16 metallic pads on it. These pads match up with those on neighbouring bricks to form small capacitors. An electrical signal on one side of a capacitor induces a similar signal on the other side, so the capacitors allow the bricks to talk to one another without the need for cumbersome cable links.

At the moment, this capacitive coupling, as it is called, is able to transmit data at a rate of 3 gigabits a second. The researchers at Almaden hope to push that up to 10 gigabits a second soon—a rate comparable with the best optical-fibre connections. Jai Menon, who is in overall charge of the project, expects to have a working demonstration of a 3x3x3 array of bricks before the end of the year. This would have a capacity of some 25 terabytes—the equivalent of all the information in America's Library of Congress.

Besides being compact, this design has one of the properties that engineers value most—redundancy. If one of the bricks goes wrong, the network of connections between the others can be re-routed to isolate it. And because the whole system can store so much information, back-up copies of everything in it can be made internally in more than one brick, meaning that such a failure destroys no data. Indeed, the system is reckoned by its designers to be sufficiently robust to tolerate multiple brick-failures over the years. This means that it will never need to be repaired—or at least that by the time it does need repairing it is likely to have been replaced by a new and improved product.

There are, inevitably, costs to such an arrangement. In particular, it is hard to cool since the bricks in the middle have no contact with the air. A system of pipes pumps water through it to carry the heat away, but despite the optimistic nickname “IceCube” that the researchers have given to their invention, this is undoubtedly a weak link in the design. If the pumps fail, so will the machine—probably irreparably. Nevertheless, Dr Menon is optimistic that the design will work not only for data storage, but eventually, once it includes bricks containing banks of processors as well as hard drives, for general-purpose computers as well.

These could be scaled up by adding more bricks. Expensive high-speed communications between processors and data-storage areas would be eliminated. And by stacking components so compactly, signal latency (the delay that results when data are moved from one part of a computer to another) would be greatly reduced, further enhancing performance. Bricklaying, in other words, will have become a high-tech profession.

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Horticulture

A vine idea

Sep 11th 2003
From The Economist print edition

Electricity companies could soon be growing tomatoes as a sideline

GREENHOUSES in cold climates need a lot of heating. This is expensive. Power stations produce a lot of hot air that is dumped into the atmosphere. This is wasteful. Moshe Alamaro, a researcher at the Massachusetts Institute of Technology, has connected these two facts and proposes to do something about them. He observes that power stations tend to be built far from cities, and to be surrounded by idle “buffer” land. He suggests building greenhouses on this land, and pumping in the exhaust from the power station.

Such greenhouses could be used to grow fruit, vegetables and flowers cheaply. Not only would the exhaust keep the plants warm, it might also fertilise them. Carbon dioxide, the result of burning fuel, is, together with water and sunlight, the raw material of photosynthesis. More of it in the air makes plants grow faster.

Dr Alamaro is working on the idea in collaboration with Calpine Corporation, a power company based in San Jose, California. Calpine has agreed to let him build a pilot greenhouse next to one of its natural-gas-powered generating plants—probably the one in Dighton, Massachusetts. The exhaust will be mixed with normal air to cool it from 130°C, the temperature at which it leaves the power station, to about 20°C, the temperature preferred by tomatoes. Dr Alamaro wants to use a gas-burning, rather than a coal- or oil-burning plant, because the exhaust produced by burning natural gas is free from sulphur dioxide, which plants hate. If his idea works, the term “greenhouse gas” may take on a whole new meaning.

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About sponsorship

The World Parks Congress

Guarding nature

Sep 11th 2003 | DURBAN
From The Economist print edition

How can a welcome success on paper be translated to the real world?

IT IS rare to spot an environmentalist smiling, but nearly 3,000 are now in party mood in Durban, South Africa. Delegates to the fifth World Parks Congress, which is discussing the best way to run the world's nature reserves, are being cheered by ten days in posh hotels overlooking the Indian Ocean. They are spending part of the time on “field trips” to luxury tourist sites. Meeting celebrities has helped, too. Nelson Mandela, Thabo Mbeki and Queen Noor of Jordan have come and said warm, supportive things. More seriously, a lot of the smiles are because conservationists think they have scored an important victory.

On September 9th the United Nations and the International Union for the Conservation of Nature (IUCN), an organisation that keeps an eye on endangered species and vulnerable habitats, published the latest list of the world's national parks and other areas where plants and animals receive at least some legal protection. Remarkably, this list shows that 12% of the world's land surface is officially protected. That surpasses a target of 10% set a decade ago at the previous congress in Caracas. Then, 12m square kilometres (4½m square miles) were listed. Now the figure is over 17m square kilometres—roughly the area of the United States and China combined. Indeed, Chinese territory forms a significant part of it. China's environment minister, Zhu Guangyao, boasted during the congress's opening ceremony that 15% of his country's land mass is now guarded.

If these figures are to be believed, more of the world's land is set aside as protected than is used for farming. The question is, are they to be believed?

Up to a point, Lord Copper

Some of the increase is undoubtedly real, but some is explained by new ways of counting. For the first time, the list includes smaller parks. It also defines “protected” more loosely than before. And the victories are exclusively on land. Marine conservation is still a neglected area. A mere 0.5% of oceans (1.7m square kilometres) is protected, and much of that is a single site in Australia, the Great Barrier Reef.

On the other hand, the list does not record private land that has conservation-minded owners (though a future list may try to do that). Many private forests in eastern Europe and Central America, and game parks in southern Africa, are as well cared for as government-owned-and-protected ones, if not better. Recognising private conservancies in South Africa would lift the portion of its protected land from 6.6% to more than 10%.

In fact, government protection is not worth much in many places, if for no other reason than that the government's writ does not extend to the allegedly protected areas. Parks in countries such as Colombia and the Democratic Republic of Congo are all but abandoned to soldiers and looters. The aftermath of war is not too pretty, either. Mozambique's Gorongosa national park, a favourite spot for safaris when the country was a Portuguese colony, is now littered with land-mines from the war of independence and the civil war that followed it. Farmers have encroached. Big mammals have been poached.

Even parks in strongly governed countries can suffer. In a surprising piece of self-criticism, Mr Zhu admitted that, despite China's extensive areas of protected land, its “weak and inconsistent” management of natural resources, and a lack of spending, had led to “serious damage” to its natural resources. He called for more foreign co-operation, a greater role for non-governmental organisations in China, and exchanges of skills and knowledge.

Follow the money

The failure of nominal and real protection to coincide helps to explain why, last year, the IUCN reported that more than 11,000 species of plants and animals are threatened with extinction. In part, that is because both biodiversity and poverty are concentrated in the tropics. Conservation is a luxury, and preponderantly the concern of the middle classes. So one question the meeting faced was how “paper parks” in countries that have more pressing problems can be made to work, and in particular be made relevant to the people—rarely middle class—who live in or near them. The answer, it was generally agreed, is to build on the private-sector experience that the formal list of conserved areas does not yet acknowledge.

Knowing the economic value that can be wrung from protected areas without damaging them is decisive. Sometimes masterful inactivity is the correct solution. Much play was made a few years ago of the role played by woods and wetlands in upstate New York in keeping New York City's water supply clean. Similar calculations apply in poor countries. One delegate, for example, told the conference of a wetland south of Kampala, Uganda's capital, that works as the city's sewerage system. A man-made sewage works capable of replacing it would cost some $13m. The swamp does the job for nothing.

Frequently, though, active management is needed to extract value from a conservation area. In the case of South Africa, much of that extraction takes place from the wallets of tourists who want to experience the sorts of field trips that the delegates are going on, and who spend 1 billion rand ($135m) a year on wildlife tourism. The government routinely (and sensibly) uses private operators to manage national parks to do this. As with so many things, “use it or lose it” is the watchword. By the next congress in 2013 few doubt that private companies will be playing a much larger role.

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About sponsorship

The United Nations

Flags of convenience

Sep 11th 2003
From The Economist print edition

Alamy

Far from being a misconceived Utopian project, the UN was meant to have real muscle. What would its founding fathers make of it now?

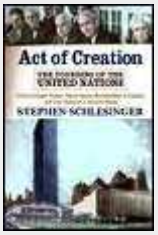
Get article background

THE invasion of Iraq destroyed the regime of Saddam Hussein, as it was intended to do, but did it also mark the beginning of the end for the United Nations? Is the UN of any use at all in a world in which a single country towers over all others in military, political and economic clout, and is bent on having its own way?

For some people the UN Security Council's apparent reluctance to enforce its own resolutions against Iraq was a disgrace. For others the diplomatic arm-twisting and public posturing in the council this spring by the United States was a sordid spectacle that ended with America and Britain brushing the council aside and launching an invasion without a second resolution. However the Iraq episode is viewed, the UN's standing has taken a beating. The bombing of the organisation's Baghdad offices last month casts an ominous shadow over its attempts to play a useful role in Iraq, though, paradoxically, it may also have encouraged a tentative rapprochement between America and its Security Council critics. Does the UN have a future?

Stephen Schlesinger's superb new book cannot answer this question directly, of course. But for those trying to formulate an answer of their own, his book's detailed account of the scheming, skulduggery and political horse-trading behind the creation of the UN is a timely reminder of what the organisation's founders expected it to become.

Act of Creation, The Founding of the United Nations: A Story of Super Powers, Secret Agents, Wartime Allies & Enemies and Their Quest for a Peaceful World
By Stephen Schlesinger



Westview Press; 392 pages; $27.50 and £19.99

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The UN was above all an American creation. Following the League of Nations fiasco after the first world war, no other country had much enthusiasm for a second attempt at a world body. Both Stalin and Churchill were openly sceptical. But for America's president, Franklin Roosevelt, establishing the United Nations was a top priority. Even while America continued to fight a world war on two fronts, Roosevelt

devoted large amounts of time, and political capital, to his pet project.

After years of planning in Washington, Roosevelt, seriously ill, travelled to Yalta in early 1945 to win Stalin's agreement on post-war arrangements. The centrepiece of these would be the UN. Many of the people close to Roosevelt believed that the trip hastened his death, which came two months later, only 13 days before the UN's founding conference in San Francisco was scheduled to begin. Stepping into his shoes, an inexperienced and somewhat shaken Harry Truman promptly announced that the UN conference would go ahead, and committed himself to its success. The American delegation arrived in San Francisco armed with detailed blueprints and negotiating strategies, and then spent two intense months hammering out a final agreement with 46 other countries. In the United States, the result was hailed as a triumph of American diplomacy.

The most striking aspect of this tale is that in 1945 America's global dominance was even greater than it is today. All other great powers lay in ruins, while America itself was unscathed by bombing or invasion. America's factories were working at full tilt. Its armed forces were the most powerful in the world by far, and it was only months from unveiling a terrible new weapon, the atomic bomb, which no other country possessed. America's economic output, by some estimates, was half of the world's total.

At the peak of America's powers, in other words, its leaders were determined to create a multilateral institution involving as many nations as possible as a primary mechanism for ensuring American, as well as global, security. In his speech before the San Francisco conference, Truman was explicit about the price of doing so. “We all have to recognise—no matter how great our strength—that we must deny ourselves the licence to do always as we please.” For America itself, Truman argued, this was a price well worth paying. The contrast with the attitude of most subsequent American governments, and especially the current one, could not be more stark. Many Bush administration officials seem to view the UN either as an irrelevance or as a dangerous constraint.

Mr Schlesinger's account, based on new information from American government archives and the diaries of key participants, also puts to rest the idea that the UN was a misconceived Utopian project, founded in a burst of post-war idealism. Roosevelt was one of the savviest and most hard-headed politicians ever to occupy the White House. He had no intention of repeating the mistakes of Woodrow Wilson, whose League of Nations was repudiated by the American Senate and then became an impotent talking shop as the world slid towards another world war. Roosevelt's new organisation was to include as many nations, large and small, as possible, but it was to be dominated by the great powers and, when they were able to agree, it was meant to have real muscle.

The conference's participants were also under no illusions about what was at stake. The second world war had not yet ended, and frictions between the United States and the Soviet Union were already growing, threatening yet another round of conflict. Participants did not dream that they were laying the foundations for world government. Their aim was a global security pact strong enough to avoid another world war.

So has the UN worked as its founders hoped? Certain features which sparked fierce debate in San Francisco and loomed large in the original design—trusteeships, membership requirements, a permanent military staff committee, a revision conference—proved irrelevant in the long term. Others, such as the growth of the UN's agencies dealing with humanitarian aid and economic development, were not anticipated. There has been no third world war, but how much credit the UN can take for this is, at best, debatable. The truth is that the organisation has had its ups and downs, which have largely coincided with support or hostility to it from the great powers.

But through all its vicissitudes, two of the UN's core features have survived. As Mr Schlesinger points out, it has become a forum where all states, including the great powers, talk to each other on a continuous basis. And with the Bush administration now seeking yet another Security Council resolution encouraging other countries to send troops to Iraq, it seems clear that the UN still retains something which even the world's sole superpower finds it difficult to do without: the ability to create broad coalitions amid an atmosphere of trust and legitimacy.

Act of Creation, The Founding of the United Nations: A Story of Super Powers, Secret Agents, Wartime Allies & Enemies and Their Quest for a Peaceful World.
By Stephen Schlesinger.
Westview Press; 392 pages; $27.50 and £19.99

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About sponsorship

Salmon fishing

Casting light

Sep 11th 2003
From The Economist print edition

ONE of the bigger environmental failures of the leading industrialised nations is their inability to deal with over-exploitation of fisheries. Faced with collapsing fish populations, whether the disappearance of the cod fishery on the Grand Banks off Newfoundland or the failure of the North Sea herring fisheries, the reaction has been one of half-hearted measures: too little done too late in a chain of endless procrastination excused by the need for ever more scientific research.

In this admirable account of salmon evolution and conservation, David Montgomery, a professor of geomorphology at the University of Washington, argues that the solution to declining salmon stocks—for which read declining fish stocks of any species—is neither fish-farming nor fish hatcheries, but the creation of sanctuaries in rivers and at sea. His book is full of nuggets of common and conservation sense. Two in particular beg to be quoted: “As a scientist, I am dismayed by the common tactic of pleading scientific uncertainty as an excuse for inaction;” and “Foregoing the opportunity to make money is not the same as losing money.”

King of Fish: The Thousand-Year Run of Salmon
By David R. Montgomery

Westview Press; 304 pages; $26 and £19.99

Buy it at
Amazon.com
Amazon.co.uk

The book is written in an appealing style with a strong focus on the salmon's evolution and habitat. “King of Fish” tells the stories of the Pacific and the Atlantic salmon in tandem and contains a wealth of credible answers to some old puzzles, including why Atlantic salmon feed off Greenland and why some salmon spend two winters at sea and others three or even four. The astonishing fecundity of all the species of salmon, and the extraordinary numbers and size of the fish that ran the rivers of Europe and America, are described in great detail. An early French governor of New Brunswick compared the nuisance presented by the salmon in the Miramichi river to that of the now extinct passenger pigeon: “If the pigeons plagued us by their abundance, the salmon gave us even more trouble. So large a quantity of them enters into this river that at night one is unable to sleep, so great is the noise they make in falling upon the water.”

However, tales of greed and folly of the 18th, 19th and 20th centuries show again and again how the process of destroying a fishery by over-fishing takes so long that individuals have no incentive to stop, even if they are aware of impending disaster. The natural reaction to all forms of exploitation is to find a way round the problem; with salmon the way round has been to invest in salmon hatcheries. Over the past century, American states have poured increasing amounts of money into trying to halt the decline in salmon runs. In Washington state, hatcheries produced 4.5m Chinook fry in 1896; 28.9m in 1950 and 92.7m in 1968. By the early 1990s, 100m-120m juvenile salmon were being poured annually into the Columbia river alone. All to no avail, and wild stocks have fallen fastest in streams that received the most attention from hatchery managers.

There is one glaring omission, at least to European eyes: the destruction of wild stocks by sea-lice infestations in salmon farms—and in Norway the spread of the *Gyrodactylus salaris* parasite by these same farms—is dealt with only in passing. Despite that, this is a fascinating and important book. It should be read by us all.

King of Fish: The Thousand-Year Run of Salmon.
By David R. Montgomery.
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About sponsorship

Russia

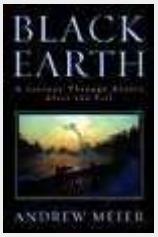
Under the volcano

Sep 11th 2003
From The Economist print edition

IN THE good old, bad old days of the Iron Curtain, it was almost a rite of passage for a reporter to write a book about the USSR after leaving a Moscow posting. When the only other long-term foreign residents were tight-lipped diplomats, journalists were expected to provide a valuable service simply by telling people what the hell was going on in the mysterious evil empire. And, of course, heroic tales of dodging the KGB made for a gripping read.

Hedrick Smith in 1976, Martin Walker in 1986 and David Remnick in 1993 all wrote at key moments in Russian history. Anyone embarking today on a study of this once-proud nation must not simply analyse the inscrutable new oligarchs but also investigate the war in Chechnya and the detritus of a corrupt and impoverished society. Beyond the stench of fermenting cabbage and rotting corpses, beyond the fact that Russia has become virtually a third-world nation, it is still a place of fascination and allure, as Andrew Meier's “Black Earth” so abundantly shows.

Black Earth: A Journey Through Russia After the Fall
By Andrew Meier



W.W. Norton; 512 pages; $28.95. To be published in Britain by HarperCollins in February 2004

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Amazon.co.uk

Mr Meier is one of a new breed of correspondents in Moscow who started out as Russia specialists and then became journalists, rather than the other way around. He was taken on by *Time* magazine in 1996, and quickly made his mark. His knowledge of the country and his abiding love for its people stands out on every page of this book, making his journey through Russia after the fall an informed and scrupulously researched one. But it is his linguistic fluency, in particular, which enables Mr Meier to dig so deeply in Russia's black earth. The treasures lie in the detail, the small nuances that emerge from his encounters with soldiers, politicians, pensioners and public servants.

Take, for example, the hard-working, poorly remunerated state psychiatrist who finally saves enough to buy a new flat in crime-ridden St Petersburg. Dr Kurpatov is forced to reconsider the advantages of living on top of a police station when desperate cops start throwing themselves off the roof of the building. Russia, as he so rightly observes to Mr Meier after a long pause in their conversation, has always waited for miracles—either from a miraculous tsar or a miraculous collective. The problem now is that there are no more miracle workers. If Utopia really has lost its currency in Russia, how will the country evolve?

If there is depth to Mr Meier's portrait of Russia, there is also breadth. Dostoevsky famously trumpeted the idea that in Russia “2x2 = 5”, implying that irrationality and paradox were Slavic rather than western attributes, and it is fitting that there are five corners to Mr Meier's Russia: Moscow, Chechnya, Norilsk, Sakhalin and St Petersburg. Organising the book's chapters along geographical axes makes for an original structure, with the most absorbing being those dedicated to the former empire's easternmost and northernmost points, both so remote from Moscow.

Mr Meier writes at times like an over-earnest novelist; his enthusiasm for fashioning phrases, and capturing evocative physical details in the style of *New Yorker* articles, occasionally makes his prose over-written and even pretentious. But this is a small price to pay for a book whose excursions into Russia's cultural and literary history, as well as its politics, make Mr Meier's journey so unforgettable.

Black Earth: A Journey Through Russia After the Fall.
By Andrew Meier.
W.W. Norton; 512 pages; $28.95. To be published in Britain by HarperCollins in February 2004

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Hospitality

Chop, chew and woo

Sep 11th 2003
From The Economist print edition

“HARDLY a single disaster or peril is described in the vast annals of Greek mythology that is not, in some way, connected to the desecration of hospitality.” Jesse Browner's slim and engaging book is full of such thought-provoking observations. Yet his is not so much an informal history of hospitality as an incidental one. The idea of hospitality provides a link, often quite tenuous, between a series of entertaining historical anecdotes, as Mr Browner ranges broadly from Petronius to Adolf Hitler via the court of Louis XIV, the log cabin of John James Audubon and the Paris salon of Gertrude Stein.

There is plenty to enjoy along the way. Mr Browner nicely retells, for instance, the cautionary tale of Lady Ottoline Morrell, a well-meaning but slightly dim toff who thought she had found her role in life as hostess to London's literary smart set. Before long, her lavish hospitality was being taken for granted, and several of those who had accepted it had no qualms about cruelly mocking her in print. “I dreamt that I could give my friends something wonderful, but now I see to them it isn't wonderful,” Lady Ottoline wrote later. “Most people live in a steaming cauldron of resentments, irritation and dislike and envy and have only a varnish of decent behaviour.”

On reflection, you realise that, much of the time, Mr Browner has not really been talking about hospitality at all. But this hardly matters. The stories are good and the book is framed by two especially fine autobiographical sketches. The first introduces the idea of hospitality as a game of deceit and subtle manipulation, a theme Mr Browner returns to regularly in the pages to come. The second recounts a family dinner during his childhood at which his mother, then in her 40s and dying of multiple sclerosis, struggled desperately to enjoy her meal. This painful but moving scene provides a clue as to why Mr Browner felt compelled to write this book and why the art of hospitality has come to matter so much to him.

The Duchess Who Wouldn't Sit Down: An Informal History of Hospitality.
By Jesse Browner.
Bloomsbury; 208 pages; $23.95

The Duchess Who Wouldn't Sit Down: An Informal History of Hospitality
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New cinema

Deaf in Venice

Sep 11th 2003 | VENICE
From The Economist print edition

There are some great new films out. Pity the Venice film festival missed them all

THIS year's Venice film festival, the 60th, was the kind of event that gives festivals a bad name. First, the most enjoyable films were barred from the main competition. They included Woody Allen's sparkling “Anything Else”; Robert Benton's “The Human Stain”, with Sir Anthony Hopkins as the near-white black man of Philip Roth's novel; Sofia Coppola's “Lost in Translation”, a riotous, heart-warming comedy about an ageing Hollywood star in Tokyo for a whisky commercial; Ridley Scott's ingenious “Matchstick Men” about two scam artists in an imbroglio that makes “The Sting” look simple-minded; and the Coen brothers' “Intolerable Cruelty”, a spiky pastiche of Grant-Hepburn screwball comedies with George Clooney and Catherine Zeta-Jones—he a glitzy divorce lawyer, she a serial bride—who are irresistibly drawn together. Any of these is worth an evening of your time. Why not submit them to the jury?

When, at the end of the festival, the jury returned its verdicts there was more controversy. The Golden Lion (and the prize for a first film) went to a haunting yet inconclusive Russian film, “The Return”, by Andrey Zvjagintsev. Two brothers find their lives turned upside down when their gruff, bad-tempered father returns home after more than a decade in prison. To try and re-establish the relationship, he takes them on a journey to the remote northern lakes, forests and islands. One of the actors playing the two brothers drowned after the film was shot, which added to tensions off-screen and on. In the film, the journey does nothing to resolve the problems between the generations. “It sounds like a valid question, what is this film about?” the director said after the screening. “But I think this question should not be asked.” Really? Baffled spectators were still asking it when the festival ended.

Another notable prize went to Katja Riemann as best actress in Margarethe von Trotta's “Rosenstrasse”, a painstaking reconstruction of 1943 Berlin, where the Aryan wives of Jewish detainees staged, of all things, a successful demonstration to free them. This was solid, old-fashioned movie craft like mother used to make. Far less honest—in fact, blatantly commercial—was Takeshi Kitano's all-singing, all-dancing, all swordplay update on a TV samurai series, “Zatoichi”, which some felt had no place in a festival at all. Yet it won the special jury prize.

The final blow was a double whammy aimed at serious Italian cinema. The more blatant aspect was the award for “outstanding individual contribution”—damning with faint praise, if nothing else—to Marco Bellocchio for “Buongiorno, Notte”, a profound and wistful study of the kidnapping and murder of the Christian Democrat leader, Aldo Moro, by members of the Red Brigades in 1978. Based partly on memoirs by one of those involved, but above all on Mr Bellocchio's mature reflection on how ordinary idealists can be drawn into monstrous acts that they still regret, it undoubtedly deserved the Golden Lion prize. A Spanish judge had the temerity to plead afterwards that the film was “not easy for foreigners on the jury to understand.” That, surely, is their problem.

Yet the jurors had no chance to redeem Venice's second double whammy. Why? Because the other deserving film to be seen in Venice was—like so many others—out of the competition. This was Bernardo Bertolucci's discerning, regretful take on the events in Paris of 1968, “The Dreamers”. A veteran of those heady days, Mr Bertolucci has no illusions about the ultimate vanity of the *révolution marxiste tendance Groucho*—even though in the end it contributed to the fall of General de Gaulle.

What he shows in this meticulous and nostalgic, yet claustrophobic drama of brother-and-sister twins seducing an American into their mind-games is, again, the cobra-like capacity of a self-obsessed society to squeeze out everything else. At a time when terrorist cells are meant to be proliferating around the world, and no one knows quite what to believe, both Mr Bertolucci and Mr Bellocchio deserve far more attention than either got from Venice's dialogue of the deaf.

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About sponsorship

Leni Riefenstahl

Hand-held history

Sep 11th 2003
From The Economist print edition

Her cinema was unforgettable

WITH just two films, made when she was still in her early 30s, Leni Riefenstahl stamped on history the iconography of Nazi Germany. Not even Albert Speer, with all his grandiose architecture cast in marble, came as close to capturing the subconscious allure—at once both devilish and erotic—that represented power to many Germans in the early 1930s. And although being cast as Adolf Hitler's favourite film-maker later killed off Ms Riefenstahl's career for good, it is this early work, the first commissioned personally by Hitler, that sealed her reputation as the greatest female film-maker of the 20th century.

She was a dancer and actress, whose films for Arnold Fanck, steeped in the Nietzschean ideology of mountains, purity and a proximity to heaven, were among Hitler's favourites. So it was perhaps inevitable that he should ask the 31-year-old Ms Riefenstahl, who had recently begun directing, to make a film of her own—not a newsreel but a piece of cinema—about the Nazi victory rally of 1934.

It was a moment that appealed to Ms Riefenstahl's passion for the Busby Berkeley spectacle and she turned it into a political coronation. “Triumph of Will” opens with the Führer descending from the clouds, like Odin, in his aeroplane to celebrate the might of his troops. She used moving cameras, frequent close-ups of the wide-eyed party faithful and heroic shots of Hitler taken from ground level. “Triumph of Will” has no commentary, only real sound—the Führer exhorting and the crowd roaring approval.

The film won an array of German prizes and led directly to a commission to film the Olympic Games in Berlin in 1936. To capture the spirit of the early Greek Olympics, she filmed nearly naked athletes in an array of heroic poses. And although the film was less *parti pris* than its predecessor—it showed Jesse Owens sprinting to victory in a race that enraged Hitler—the power of moving muscle as the pinnacle of human excellence portrayed in “Olympia” had as much to do with Nazi ambition as it did with sport.

As before, Ms Riefenstahl's filming and editing techniques both broke new ground, and many shots that now seem commonplace had never been seen before. To capture the drama of the pole vault and long jump, she placed her cameras in holes beside the sandpit where the athletes landed. She used four cameras, including one underwater, to capture the movement of high divers from all angles. Then, in the editing room, she turned them into graceful birds that you almost never see hitting the water.

Leni Riefenstahl took up still photography after she stopped making films. A favourite subject was the Nuba of Sudan. Like her athletes, her portraits of the Nuba were far less about the individuals she photographed than what their sculpted, muscular bodies represented. The similarity makes you wonder, if her film-making had not been abruptly cut off in its youth, whether she would indeed have evolved much further as an artist. Although she was 101 when she died earlier this week, there was always something of the James Dean about her.

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About sponsorship

Charles Bronson

Sep 11th 2003
From The Economist print edition

Charles Bronson, the star of many violent films, died on August 30th, aged 81

EPA

AN ACTOR cannot be blamed for the fans he attracts, but Charles Bronson certainly attracted some ugly ones. One of Britain's most dangerous prisoners, an armed robber with a penchant for kidnapping visitors to his jail at knifepoint, changed his name to “Charles Bronson” as a mark of respect. Charles Bronson, the prisoner, is an angry, sullen, violent man, which is presumably why he felt such an empathy with Charles Bronson, the movie star, who usually played angry, sullen, violent roles.

Mr Bronson's best known film, and his most notorious, was “Death Wish”, which was released in 1974. He played the part of Paul Kersey, an amiable architect whose wife is murdered and whose daughter is raped by a gang of leering thugs, the ringleader of whom is portrayed by a young Jeff Goldblum. The shock prompts Kersey to arm himself and start clearing the New York streets of bad guys.

The film's apparent glorification of vigilantism caused outrage among the *bien-pensants*. The *New York Times*'s Vincent Canby called it “one of the sickest movies ever made”. What particularly upset him was that it “raises complex questions in order to offer bigoted, frivolous, oversimplified answers.”

But audiences loved it. Each time Mr Bronson's character gunned down another hoodlum, they cheered. The film's British director, Michael Winner, had struck a chord with middle America. This was before the days of zero-tolerance policing; a lot of people were terrified of criminals and fed up with the law's apparent reluctance to confront them.

The film's message may have been oversimplified, and it may have been wrong-headed, but it was not frivolous. As Mark Steyn, a Canadian critic, pointed out, Mr Winner was “scrupulous about showing Bronson only shooting those who first threaten him. To be sure, he sort of goes looking for trouble. But in 1970s New York you didn't have to look far: just go to the park, ride the subway, take an evening stroll.” As for Mr Bronson, he said he didn't care what the critics thought. “They don't pay to see [movies] anyhow,” he shrugged.

A hard scrabble to stardom

He was born Charles Buchinsky, the 11th of 15 children of a Lithuanian father and a Slav-American mother, in Pennsylvania in 1921. His father died when he was ten, and his family was so poor that he wore ragged hand-me-downs to school, including, when he was six, a dress his older sister had grown out of. He worked as a coal-miner in his teens, was drafted in 1943, and spent much of the war driving a truck for a mess squadron in Arizona.

After the war, he took advantage of the GI Bill to enroll in art school, and subsisted through a series of tough, ill-paid manual jobs. He fell in with a troupe of actors, painted scenery for a while, and soon progressed to treading the boards rather than daubing them. His first small movie role came in 1951, when he appeared as a sailor who boxes in a Gary Cooper vehicle called “You're in the Navy Now”.

In the mid-1950s, he changed his name to Bronson, apparently for fear that a vaguely Russian-sounding name would not appeal to McCarthy-era American audiences. For the first two decades of his film career, he was typecast as a tough guy in a succession of supporting roles. Directors liked his craggy, lived-in face, his menacing stillness, and his ability to dominate the screen while remaining silent. “The key to Bronson was the repressed fury, the constant feeling that if you don't watch the screen every minute, you'll miss the eruption,” commented Mr Winner.

He was not good looking, at least not in the smooth, symmetrical way expected of leading men, but women found him strangely attractive. He won plaudits, especially in Europe, for gritty performances in such films as “The Magnificent Seven”, “The Dirty Dozen”, “The Great Escape” and “Once Upon a Time in the West”. But he did not become a star in America until “Death Wish”, by which time he was already well into middle age.

From then on, he prospered. He made a lot of movies, for which he was paid a great deal of money. There was “Death Wish 2” (“The sort of sequel which makes you realise that the original wasn't half so bad as you thought,” said Margaret Hinxman of Britain's *Daily Mail*), not to mention Death Wishes 3, 4 and 5. There were hard-boiled thrillers with titles like “Death Hunt”, “Love and Bullets” and “Murphy's Law”. He played the publicity game with aplomb, convincing interviewers that he had been in rather more fistfights than he had, and that his hobby was knife-throwing. (It was painting.) He bought a horse farm in Vermont and a mansion in Bel-Air.

His legacy? Movies today are noticeably more violent than Mr Bronson's ever were. Mr Canby of the *New York Times*, that fierce critic of “Death Wish”, later lamented that by the 1990s, even children's films such as “Dick Tracy” had a higher body count. Television characters are now 1,000 times more likely to be murdered than real people. Modern stars such as Arnold Schwarzenegger, the would-be governor of California, dispatch their victims in unprecedented numbers and with quips intended to make carnage seem comic. What did Mr Bronson have to say about all this? Not much, as usual.

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Overview

Sep 11th 2003
From The Economist print edition

America's jobless recovery continues. Although unemployment eased from 6.2% in July to 6.1% in August, non-farm payrolls fell by an unexpectedly large 93,000 in August, and jobless claims rose to 413,000, their highest level in seven weeks. Unemployment in **Canada** rose to 8% in August.

The **OECD**'s Composite Leading Indicator rose by 1.3 points to 123.4 in July after a gain of 1.2 points in June, possibly indicating faster global economic growth over the next six months.

Euro-area GDP was revised to show a contraction of 0.1% in the second quarter, down from zero. **Germany's** industrial production rose by a stronger-than-expected 2.4% in July. German holidays, which are usually spread over July and August, were largely concentrated in August this year and might explain some of the sharp rise. **Italy's** economy fell into recession, defined as two consecutive quarters of falling output, for the first time since 1992 as GDP fell in the second quarter by 0.1%. In the first quarter, the economy also contracted by 0.1%.

Britain's trade deficit narrowed to $73.3 billion in the year to July as global economic recovery boosted exports. Industrial production rose by a stronger-than-expected 0.5% in the three months to July.

Japan's GDP growth rate in the second quarter was revised up from 0.6% to 1.0%.

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Output, demand and jobs

Sep 11th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.0	Q2	+ 0.5	+ 2.8	+ 3.5	nil	Q1	+ 3.6	Q2	5.8	Aug	6.2
Austria	+ 1.0	Q1	+ 0.7	+ 0.5	+ 1.4	– 1.9	Dec	– 0.5	Jun	4.5	Jul	4.3
Belgium	+ 0.8	Q2	– 0.4	+ 0.7	+ 1.6	– 5.9	Jun	– 1.7	Jun	13.3	Aug†	12.0
Britain	+ 1.8	Q2	+ 1.3	+ 1.8	+ 2.4	– 0.5	Jul	+ 4.4	Jul	5.0	Jul††	5.1
Canada	+ 1.6	Q2	– 0.3	+ 2.2	+ 3.0	+ 0.5	Jun	+ 2.3	Jun	8.0	Aug	7.5
Denmark	– 0.8	Q2	– 1.8	+ 1.1	+ 2.1	+ 1.6	Jul	+ 2.2	Jun	6.0	Jul	5.1
France	nil	Q2	– 1.3	+ 0.7	+ 1.9	– 0.9	Jun	– 2.2	May	9.6	Jul	9.1
Germany	– 0.2	Q2	– 0.2	nil	+ 1.3	+ 0.5	Jul	– 2.4	Jul	10.6	Aug§	9.8
Italy	+ 0.3	Q2	– 0.3	+ 0.5	+ 1.6	– 1.7	Jun	– 2.1	Jun	8.7	Apr	9.0
Japan	+ 3.0	Q2	+ 3.9	+ 1.5	+ 1.3	nil	Jul	– 2.6	Jul	5.3	Jul	5.4
Netherlands	– 0.9	Q2	– 2.1	– 0.2	+ 1.4	– 3.2	Jun	– 1.1	Apr	5.4	Jul**	4.1
Spain	+ 2.3	Q2	+ 2.7	+ 1.9	+ 2.6	+ 1.7	Jul	+ 3.6	Jul	11.4	Jul	11.3
Sweden	+ 1.3	Q2	+ 1.2	+ 1.5	+ 2.2	+ 2.4	Jun	+ 5.0	Jul	5.0	Jul†	4.3
Switzerland	– 1.0	Q2	– 1.2	– 0.1	+ 1.3	+ 0.9	Q1	– 1.7	Jun	3.6	Aug†	2.4
United States	+ 2.5	Q2	+ 3.1	+ 2.4	+ 3.6	– 1.4	Jul	+ 6.3	Jul	6.1	Aug	5.8
Euro area	+ 0.2	Q2	– 0.3	+ 0.5	+ 1.7	– 1.6	Jun	+ 0.7	Jun	8.9	Jul	8.4
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 0.8	Q2	+ 2.4	na	na	+ 1.9	Jul	+ 2.2	Jun	7.9	Jul†	7.8
Greece	+ 4.5	Q2	+ 0.4	na	na	+ 2.8	Jun	+ 7.2	Apr	na		na
Iceland	+ 3.3	Q1	na	na	na	– 0.3	2002	na		3.0	Jul†	2.3
Ireland	+ 0.5	Q1	na	na	na	– 0.1	Jun	+ 2.9	Jun	4.8	Jul	4.4
Luxembourg	+ 1.1	2002	na	na	na	– 3.6	Jun	– 1.6	Mar	3.7	Jul	2.8
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 4.2	Q1	+ 5.1	Q2	4.7	Q2	5.2
Norway	– 2.0	Q2	– 0.6	na	na	– 2.8	Jul	+ 5.7	Jul	4.7	Q2	4.0
Portugal	– 2.3	Q2	+ 0.5	na	na	– 0.8	nil	+ 1.0	Jul	6.2	Q2†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Apr-Jun; claimant count rate 3.1% in July. §EU harmonised rate 9.4% in Aug. **May-Jul.

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Prices and wages

Sep 11th 2003
From The Economist print edition

% change on year ago

	Consumer prices		The Economist poll consumer prices forecast		Producer prices		Wages/earnings	
	latest	year ago	2003	2004	latest	year ago	latest	year ago
Australia	+ 2.7 Q2	+ 2.8	+ 2.7	+ 2.3	+ 0.2 Q2	– 1.1	+ 5.5 Q2	+ 3.7
Austria	+ 1.1 Jul	+ 1.6	+ 1.3	+ 1.1	+ 1.3 Aug	– 0.6	+ 2.1 Jul	+ 2.4
Belgium	+ 1.8 Aug	+ 1.3	+ 1.3	+ 1.1	– 1.9 Jul	+ 0.5	+ 1.7 Q2	+ 2.6
Britain	+ 3.1 Jul	+ 1.5	+ 2.7	+ 2.4	+ 1.6 Aug	+ 0.4	+ 3.1 Jun	+ 3.9
Canada	+ 2.2 Jul	+ 2.1	+ 2.8	+ 1.9	– 1.6 Jul	– 0.2	+ 3.8 Jun	+ 2.9
Denmark	+ 1.7 Aug	+ 2.3	+ 2.2	+ 1.8	– 0.1 Jul	– 0.9	+ 3.8 Q2	+ 3.7
France	+ 1.9 Jul	+ 1.6	+ 1.8	+ 1.3	+ 0.9 Jun	– 1.4	+ 2.7 Q2	+ 3.9
Germany	+ 1.1 Aug	+ 1.2	+ 0.9	+ 0.6	+ 0.8 Aug	– 0.5	+ 1.8 Jun	+ 3.0
Italy	+ 2.8 Aug	+ 2.4	+ 2.5	+ 1.9	+ 1.3 Jul	+ 0.4	+ 2.1 Jul	+ 2.2
Japan	– 0.2 Jul	– 0.8	– 0.4	– 0.3	– 0.6 Aug	– 2.0	+ 2.8 Jul	– 5.1
Netherlands	+ 2.1 Jul	+ 3.3	+ 2.3	+ 1.8	+ 1.9 Jul	– 0.3	+ 2.0 Jul	+ 3.4
Spain	+ 3.0 Aug	+ 3.6	+ 3.0	+ 2.5	+ 1.1 Jul	+ 0.4	+ 4.9 Q1	+ 4.0
Sweden	+ 1.8 Jul	+ 2.2	+ 2.2	+ 1.6	– 1.5 Jul	– 0.8	+ 3.3 Jun	+ 3.1
Switzerland	+ 0.5 Aug	+ 0.5	+ 0.6	+ 0.6	– 0.7 Jul	– 1.6	+ 1.8 2002	+ 2.5
United States	+ 2.1 Jul	+ 1.5	+ 2.2	+ 1.3	+ 3.0 Jul	– 1.2	+ 2.9 Aug	+ 3.0
Euro area	+ 2.1 Aug	+ 2.1	+ 1.8	+ 1.3	+ 1.3 Jul	– 0.3	+ 3.0 Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 0.4 Jul	+ 1.8	na	na	– 2.6 Jul	– 1.3	+ 4.3 Q2	+ 3.9
Greece	+ 3.3 Aug	+ 3.5	na	na	+ 2.9 Jul	+ 0.9	na	na
Iceland	+ 2.0 Aug	+ 3.2	na	na	+ 3.0 Sep	+ 6.2	+ 5.7 Jul	+ 6.6
Ireland	+ 3.1 Jul	+ 4.3	na	na	– 8.2 Jul	– 3.8	+ 7.1 Q1	+ 6.9
Luxembourg	+ 1.6 Jul	+ 2.0	na	na	+ 2.1 Jun	– 1.3	nil Jun	– 0.6
New Zealand	+ 1.5 Q2	+ 2.8	na	na	– 2.0 Q2	+ 1.5	+ 2.3 Q2	+ 2.1
Norway	+ 2.1 Aug	+ 1.4	na	na	+ 6.1 Aug	– 8.6	+ 5.4 Q2	+ 4.9
Portugal	+ 2.9 Jul	+ 3.4	na	na	– 0.4 Jul	+ 0.5	nil Jun	+ 0.5

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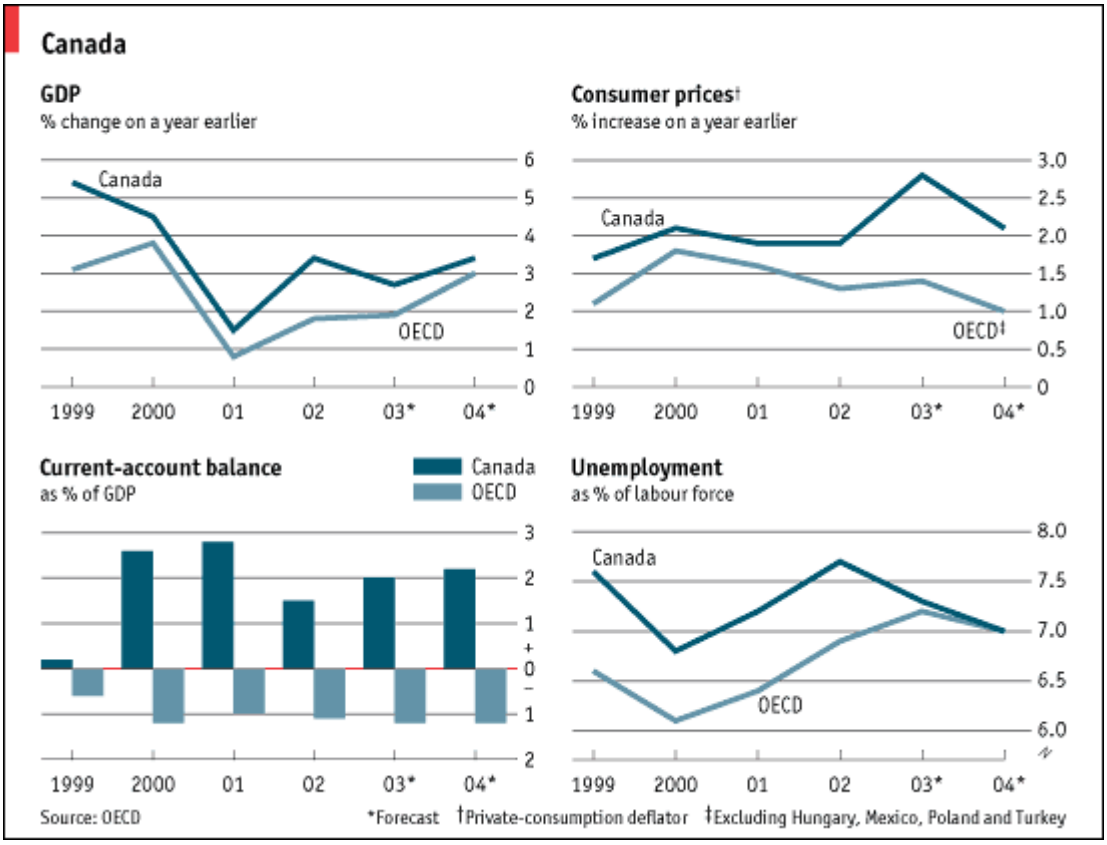
Canada

Sep 11th 2003
From The Economist print edition



Canada weathered the world economic slowdown better than most developed economies and looks poised to flourish in the recovery. The OECD is forecasting GDP growth of 2.7% this year and 3.4% in 2004. Unlike the United States, Canada does not suffer from severe economic imbalances. The current account is in surplus and the household and corporate sectors are in good financial shape. However, the economy does suffer from two other longer-term weaknesses. Structural unemployment remains high. And living standards are 15% lower than in America, mainly because of lower labour productivity. Further labour-market reform, such as more use of in-work benefits, is needed to cut unemployment, argues the OECD. It also advocates steps to intensify competition, such as removing barriers to foreign ownership in the telecoms industry, to boost productivity.

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Money and interest rates

Sep 11th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Sep 10th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 9.5	+13.5	Jul	4.88	4.91	5.01	5.50	5.58	6.21
Britain	+ 8.1	+ 7.5	Jul	3.63	3.94	4.10	4.65	4.56	5.74
Canada	+ 9.4	+ 6.9	Jul	2.65	2.82	2.99	4.75	4.97	6.55
Denmark	+ 8.7	+ 9.8	Jul	2.30	3.40	2.88	4.40	4.72	5.61
Japan	+ 5.5	+ 2.0	Aug	0.01	0.02	0.19	1.58	1.04	1.66
Sweden	+ 3.4	+ 5.1	Jul	2.69	4.20	3.23	4.73	5.02	3.90
Switzerland	+23.7	+ 9.1	Jul	0.26	0.75	0.28	2.75	2.75	2.92
United States	+ 6.9	+ 8.6	Jul	1.03	1.73	1.63	4.27	4.06	6.06
Euro area†	+11.5	+ 8.5	Jul	2.15	3.32	2.50	4.25	4.47	4.01

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.15%, Japan No.253 1.57%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Sep 11th 2003
From The Economist print edition

1995=100

	Sep 2nd	Sep 9th*	% change on one month	% change on one year
Dollar index				
All items	80.4	81.0	+ 3.8	+ 6.0
Food	79.8	81.1	+ 4.6	– 1.0
Industrials				
All	81.1	80.9	+ 2.9	+17.2
Nfa†	86.1	86.3	+ 5.4	+21.1
Metals	76.9	76.4	+ 0.6	+13.8
Sterling index				
All items	80.6	80.4	+ 4.7	+ 3.6
Euro index				
All items	97.3	95.3	+ 4.9	– 7.7
Yen index				
All items	99.4	100.3	+ 1.9	+ 3.0
Gold				
$ per oz	373.25	381.00	+ 6.0	+19.7
West Texas Intermediate				
$ per barrel	29.58	29.15	– 8.6	– 1.7

* Provisional. † Non-food agriculturals.

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Stockmarkets

Sep 11th 2003
From The Economist print edition

Market indices

	Sep 10th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,220.1	3,237.5	2,673.3	nil	– 6.4	+ 8.2	+26.5
Austria (ATX)	1,371.5	1,381.7	1,120.2	– 0.5	–21.1	+19.3	+27.4
Belgium (Bel 20)	2,072.3	2,116.3	1,426.6	– 1.7	–43.7	+ 2.3	+ 9.3
Britain (FTSE 100)	4,252.1	4,292.1	3,287.0	– 0.2	–38.6	+ 7.9	+ 6.6
Canada (Toronto Composite)	7,571.1	7,636.0	6,228.6	– 0.1	–33.5	+14.5	+32.4
Denmark (KBX)	210.4	217.5	145.0	– 3.3	–30.3	+26.5	+35.2
France (SBF 250)	2,259.2	2,318.0	1,630.1	– 2.5	–48.5	+10.0	+17.5
(CAC 40)	3,328.7	3,422.8	2,403.0	– 2.7	–51.9	+ 8.6	+16.1
Germany (DAX)	3,536.9	3,668.7	2,203.0	– 3.0	–56.1	+22.3	+30.6
Italy (BCI)	1,198.5	1,213.7	959.4	– 0.7	–45.1	+ 9.8	+17.2
Japan (Nikkei 225)	10,856.3	10,922.0	7,607.9	+ 1.3	–72.1	+26.5	+28.2
(Topix)	1,044.0	1,045.7	770.6	+ 1.0	–63.8	+23.8	+25.5
Netherlands (AEX)	331.1	342.2	218.4	– 3.0	–52.8	+ 2.6	+ 9.6
Spain (Madrid SE)	751.0	768.6	576.8	– 2.3	–34.5	+18.5	+26.5
Sweden (Affarsvarlden Gen)	176.4	180.4	127.8	– 1.8	–55.9	+21.5	+29.9
Switzerland (Swiss Market)	5,306.2	5,336.3	3,675.4	+ 0.3	–36.9	+14.6	+14.3
United States (DJIA)	9,420.5	9,587.9	7,524.1	– 1.5	–19.6	+12.9	+12.9
(S&P 500)	1,010.9	1,031.6	800.7	– 1.5	–33.8	+14.9	+14.9
(NASDAQ Comp)	1,823.8	1,888.6	1,271.5	– 1.6	–63.9	+36.6	+36.6
Europe (FTSE Eurotop 300)*	904.3	926.5	682.7	– 2.4	–47.0	+ 5.5	+12.7
Euro area (FTSE Ebloc 100)*	777.4	800.8	565.7	– 2.9	–49.9	+ 8.2	+15.6
World (MSCI)†	918.0	931.6	710.8	– 0.5	–36.6	na	+15.9
World bond market (Citigroup)‡	548.0	583.9	518.6	+ 2.2	– 6.2	na	+ 4.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Sep 11th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Sep 10th	year ago	Currency units per $ Sep 10th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 11.8	Jul	− 24.4	Q2	− 5.1	− 4.6	82.9	73.4	1.52	1.83	2.42	1.70	1.30	0.2
Austria	+ 0.7	May	+ 2.0	Jun	+ 0.2	+ 0.1	103.1§	100.8	0.89	1.03	1.42	–	0.76	-1.3
Belgium	+ 18.6	May	+ 10.7	Mar	+ 4.7	+ 4.7	103.3§	100.0	0.89	1.03	1.42	–	0.76	nil
Britain	− 73.3	Jul	− 5.8	Q1	− 1.1	− 1.3	98.3	106.6	0.63	0.65	–	0.70	0.54	-1.9
Canada	+ 35.9	Jun	+ 14.7	Q2	+ 1.7	+ 1.6	85.8	75.5	1.37	1.58	2.17	1.53	1.17	1.1
Denmark	+ 9.8	Jun	+ 5.9	Jun	+ 2.6	+ 2.4	106.4	102.8	6.62	7.64	10.5	7.43	5.66	1.6
France	+ 6.2	Jun	+ 23.2	Jun	+ 1.4	+ 1.3	106.8§	102.9	0.89	1.03	1.42	–	0.76	-3.6
Germany	+135.1	Jul	+ 53.6	Jul	+ 2.0	+ 1.8	104.5§	99.8	0.89	1.03	1.42	–	0.76	-3.7
Italy	+ 2.1	Jun	− 16.6	Jun	− 0.5	− 0.4	76.1§	73.3	0.89	1.03	1.42	–	0.76	-2.4
Japan	+ 95.1	Jul	+115.9	Jul	+ 2.6	+ 2.8	131.0	134.9	117	121	186	131	–	-7.7
Netherlands	+ 30.1	Jun	+ 2.9	Q1	+ 2.2	+ 2.4	102.8§	99.0	0.89	1.03	1.42	–	0.76	-1.6
Spain	− 45.5	May	− 19.6	May	− 2.4	− 2.3	77.3§	75.0	0.89	1.03	1.42	–	0.76	-0.4
Sweden	+ 16.3	Jul	+ 11.1	Q2	+ 3.6	+ 3.4	80.7	77.1	8.15	9.41	13.0	9.14	6.96	0.7
Switzerland	+ 5.8	Jul	+ 32.7	Q1	+10.7	+10.6	110.9	114.1	1.39	1.51	2.20	1.55	1.18	na
United States	−529.6	Jun	−510.2	Q1	− 5.2	− 5.5	103.8	114.4	–	–	1.59	1.12	0.85	-4.6
Euro area	+ 80.4	Jun	+ 42.9	Jun	+ 0.6	+ 0.5	89.5	81.1	0.89	1.03	1.42	–	0.76	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.7	Jun	+ 10.3	Jun	na	na	82.2§	78.9	0.92	1.03	1.47	–	0.79	3.1
Greece	− 24.0	Jun	− 11.5	Jun	na	na	59.7§	58.0	0.92	1.03	1.47	–	0.79	-1.0
Iceland	nil	Jul	nil	Q1	na	na	98.1**	89.0	80.3	87.2	128	90.0	68.6	nil
Ireland	+ 37.4	Jun	− 2.1	Q1	na	na	95.2§	89.3	0.92	1.03	1.47	–	0.79	-0.8
Luxembourg	− 3.3	Jun	+ 1.8	Q1	na	na	103.3§	100.0	0.92	1.03	1.47	–	0.79	0.2
New Zealand	− 1.6	Jul	− 1.4	Q1	na	na	99.2	86.2	1.72	2.12	2.73	1.92	1.46	0.8
Norway	+ 27.4	Jul	+ 25.8	May	na	na	96.6	105.0	7.40	7.59	11.8	8.29	6.32	11.3
Portugal	− 12.9	Jun	− 8.5	May	na	na	92.9**	90.0	0.92	1.03	1.47	–	0.79	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. **IMF, April average.

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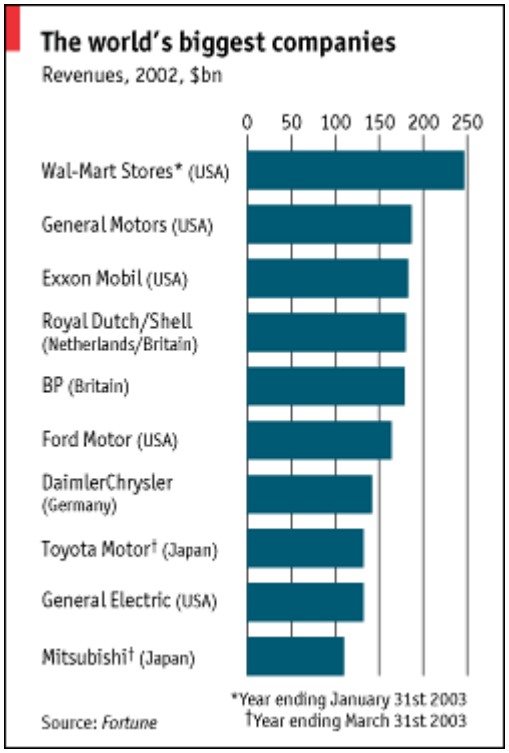
The world's biggest companies

Sep 11th 2003
From The Economist print edition



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Overview

Sep 11th 2003
From The Economist print edition

In August, **Russia's** economy experienced deflation for the first time in six years, thanks to falling food prices. The CPI fell by 0.4% during the month, yet inflation is expected to reach 12% for all of 2003.

China's industrial output rose by 17.1% in the year to August.

Turkey's economy grew by 3.9% in the year to the second quarter, disappointing forecasters who expected growth of 6.0%.

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Working time needed to buy a Big Mac

Sep 11th 2003
From The Economist print edition

Since 1986, *The Economist's* Big Mac Index has compared the real purchasing power of currencies around the world. UBS, an investment bank, has taken the idea a step further. It aims to measure well-being by estimating how many minutes workers in various countries must toil to buy a Big Mac. In Kenya, UBS says that it takes just over three hours of labour for a typical worker to afford one of McDonald's hefty burgers. Americans, lucky for them, need to work for only ten minutes. Such differences reflect variations in productivity as well as disparities in local costs of ingredients.

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Economy

Sep 11th 2003
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+17.1	Aug	+ 0.5	Jul	+21.4	Aug	+35.4	2002	356.5	Jul
Hong Kong	– 0.5	Q2	– 8.8	Q1	– 4.0	Jul	– 6.7	Jul	+18.4	Q1	111.8	Aug
India	+ 4.9	Q1	+ 5.7	Jun	+ 4.2	Jul	–13.1	Jul	+ 4.7	Q1	82.6	Aug
Indonesia	+ 3.8	Q2	+18.4	Mar	+ 6.4	Aug	+25.8	Jul	+ 6.7	Q1	32.3	Jul
Malaysia	+ 4.4	Q2	+ 8.6	Jun	+ 1.0	Jul	+17.0	Jul	+ 8.5	Q1	34.0	Jul
Philippines	+ 3.2	Q2	– 1.2	Jun	+ 3.0	Aug	– 0.7	Jun	+ 2.7	May	12.8	Aug
Singapore	– 4.2	Q2	– 6.3	Jul	+ 0.3	Jul	+13.7	Jul	+23.8	Q2	87.8	Aug
South Korea	+ 1.9	Q2	+ 0.7	Jul	+ 3.0	Aug	+ 9.9	Aug	+ 4.1	Jul	132.8	Jul
Taiwan	– 0.4	Q2	+ 7.5	Jul	– 0.6	Aug	+17.3	Aug	+26.9	Q2	185.7	Aug
Thailand	+ 6.7	Q1	+10.3	Jul	+ 2.2	Aug	+ 4.8	Jul	+ 8.9	Jul	36.7	Jul
Argentina	+ 5.1	Q1	+11.9	Jul	+ 4.9	Aug	+17.2	Jul	+10.1	Q1	13.5	Jul
Brazil	– 1.3	Q2	– 2.5	Jul	+15.4	Jul	+22.9	Aug	+ 2.6	Jul	47.3	Jul
Chile	+ 2.7	Q2	– 2.9	Jul	+ 2.9	Aug	+ 2.8	Aug	– 0.8	Q2	15.4	Jul
Colombia	+ 2.0	Q2	+ 1.0	Jun	+ 7.3	Aug	– 0.3	Jun	– 2.1	Q1	10.4	Aug
Mexico	+ 0.2	Q2	– 1.7	Jun	+ 4.0	Aug	– 6.5	Jul	–11.5	Q2	51.7	Jul
Peru	+ 5.7	Jun	+ 3.3	Jun	+ 1.9	Aug	+ 0.4	Jun	– 1.2	Q2	9.0	Aug
Venezuela	– 9.4	Q2	–11.4	Jun	+30.4	Aug	+14.6	Q2	+ 9.3	Q2	11.9	May
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 4.0	Jun	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	– 0.3	Q2	– 0.8	Jun	– 1.6	Jul	– 6.3	Jul	– 0.5	Q1	24.0	Aug
South Africa	+ 1.8	Q2	– 2.0	Jul	+ 5.2	Jul	+ 3.4	Jul	– 0.2	Q1	6.5	Jul
Turkey	+ 3.9	Q2	+11.9	Jul	+24.9	Aug	–18.1	Jun	– 4.1	Jun	28.7	Jul
Czech Republic	+ 2.2	Q1	+ 4.8	Jul	– 0.1	Aug	– 2.3	Jul	– 5.0	Q2	24.4	Aug
Hungary	+ 2.4	Q2	+ 6.1	Jul	+ 4.7	Aug	– 3.3	Jun	– 3.8	Jun	12.2	Jul
Poland	+ 2.2	Q1	+10.3	Jul	+ 0.8	Jul	–10.5	Jul	– 5.4	Jul	30.9	Jul
Russia	+ 6.8	Q1	+ 7.1	Jul	+13.4	Aug	+54.8	Jul	+36.4	Q2	59.0	Aug
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.4	Jul	– 1.1	Aug	+ 2.8	2002†	9.8	Jul
Saudi Arabia	+ 0.7	2002§	na		– 1.0	May	+38.6	2002§	+11.7	2002	22.8	May

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Sep 11th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Sep 10th		Dec 31st 2002	
	Sep 10th	year ago	Sep 10th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.2	na	1,491.9	– 1.7	+ 5.1	+ 5.1
Hong Kong	7.80	7.80	12.4	1.13	10,810.3	– 1.2	+ 16.0	+ 16.0
India	45.7	48.4	72.7	4.65	4,434.3	+4.1	+ 31.3	+ 37.7
Indonesia	8,425	8,893	13,397	9.07	572.9	+2.6	+ 34.8	+ 43.2
Malaysia	3.80	3.80	6.04	3.10	736.2	– 1.2	+ 13.9	+ 13.9
Philippines	54.9	52.0	87.3	7.81	1,292.5	+4.1	+ 26.9	+ 23.4
Singapore	1.75	1.76	2.78	0.81	1,566.7	– 2.4	+ 16.8	+ 15.7
South Korea	1,170	1,205	1,861	3.83	767.5	+0.1	+ 22.3	+ 24.0
Taiwan	34.1	34.3	54.1	1.15	5,623.4	– 0.9	+ 26.3	+ 29.0
Thailand	40.4	42.5	64.2	1.28	560.6	+3.8	+ 57.3	+ 67.8
Argentina	2.93	3.61	4.66	7.31	762.6	+3.9	+ 45.3	+ 66.7
Brazil	2.91	3.10	4.62	21.84	15,983.3	+2.2	+ 41.8	+ 72.7
Chile	681	721	1,083	2.88	6,765.7	+0.8	+ 34.8	+ 42.5
Colombia	2,823	2,723	4,489	7.76	2,144.1	+2.9	+ 33.3	+ 35.4
Mexico	10.94	9.97	17.4	7.56	7,734.7	+0.2	+ 26.2	+ 20.7
Peru	3.48	3.61	5.53	2.81	1,939.6	+2.4	+ 39.3	+ 40.7
Venezuela	1,598	1,492	2,541	17.94	15,480.3	+4.2	+ 93.1	+ 67.6
Egypt	6.15	4.60	9.77	8.42	9,274.0	+2.8	+ 72.7	+ 30.1
Israel	4.48	4.75	7.12	3.85	416.7	– 3.1	+ 25.3	+ 33.0
South Africa	7.4	10.6	11.7	9.90	9,453.3	+1.3	+ 1.9	+ 18.5
Turkey	1,388,000	1,664,500	2,207,198	31.00	12,317.7	+5.5	+ 18.8	+ 42.1
Czech Republic	29.3	30.6	46.6	2.06	632.6	– 2.5	+ 37.3	+ 40.9
Hungary	229	250	364	9.50	9,160.7	– 0.9	+ 17.5	+ 15.5
Poland	3.97	4.16	6.31	5.16	19,984.0	– 8.2	+ 39.1	+ 34.3
Russia	30.6	31.7	48.7	16.00	538.1‡	– 0.8	+ 43.8	+ 49.9
EMF (MSCI)*	1.00	1.00	1.59	na	383.5	+0.5	na	+ 31.3
EMBI+†	1.00	1.00	1.59	na	277.0	+2.4	na	+ 21.0

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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